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The proud father of LSD

Almost there

PRINT EDITION

Full contents | Subscribe
Enlarge current cover
Past issues/regional covers

NEWS ANALYSIS
POLITICS THIS WEEK
BUSINESS THIS WEEK

OPINION
Leaders
Letters to the editor
Blogs
Columns
Kallery

WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
International
Country Briefings Go
Cities Guide Go

SPECIAL REPORTS

BUSINESS
Management
Business Education

FINANCE & ECONOMICS
Economics Focus
Economics A-Z

SCIENCE & TECHNOLOGY
Technology Quarterly

BOOKS & ARTS
Style Guide

PEOPLE
Obituary

MARKETS & DATA
Weekly Indicators
Currencies
Rankings
Big Mac Index
Chart Gallery

DIVERSIONS
Correspondent's Diary

RESEARCH TOOLS

AUDIO AND VIDEO

DELIVERY OPTIONS
E-mail Newsletters
Audio edition
Mobile Edition
RSS Feeds
Screensaver

CLASSIFIED ADS

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Economist Intelligence Unit
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The World In
Intelligent Life
CFO
Roll Call
European Voice
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Print Edition May 10th 2008

On the cover
Barack Obama deserves the nomination; it is not yet clear whether he deserves the presidency: leader

Previous print editions
May 3rd 2008
Apr 26th 2008
Apr 19th 2008
Apr 12th 2008
Apr 5th 2008
More print editions and covers »

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The world this week

Politics this week
Business this week
KAL's cartoon

Leaders

The Democrats
Almost there

Cyclone in Myanmar
Myanmar's misery

Gordon Brown
The agony of Gordon Brown

The Palestinians
Still stateless after all these years

America's housing
Home truths

Russia's new president
Enter, pursued by a new bear

Letters

On Colombia, Jewish refugees, currencies, Cuba, John McCain, Macedonia

Briefing

Black America
Nearer to overcoming

The Palestinians
The wandering Palestinian

United States

Presidential politics
The big remaining question

On the campaign trail
Primary colour

Education
Red ties and boys' pride

New York schools
Six books a week

The booming West
Grave goods

Lexington
Land of the free?

The Americas

Peru
Poverty amid progress

The Dominican Republic
Two cheers for Fernández

Bolivia
Battle by referendum

Ecuador's constitution
Going nowhere

Asia

Cyclone in Myanmar
No shelter from the storm

North Korea
Let them eat Juche

China and Tibet
A lama in sheep's clothing?

China and Japan
Blossoming

China's latest virus
Better safe than sorry

Business

Russia's oil industry
Trouble in the pipeline

Microsoft and Yahoo!
No deal

Mobile telecoms
Calling across the Indian Ocean

Electric vehicles
Charge!

Great Wall Motor
Hungry like the wolf

Tourism
Rebranding Australia

America's patent system
Methods and madness

Face value
Dynasty calls

Briefing

Energy efficiency
The elusive negawatt

Finance & Economics

American housing
Map of misery

Buttonwood
Backing greens with greenbacks

Bank lay-offs
First ink, now blood

African finance
Turning towards Mecca

Argentine lending
Who needs credit?

Economics focus
A tale of two worlds

Science & Technology

Myalgic encephalomyelitis
The roots of chronic fatigue

Epigenetics
Silencing of the lambs

Lie detectors
Whose pants on fire?

Animal behaviour
Naughty nesters

Proteomics
Return to the fold

Books & Arts

Richard Nixon
The fuel of power

Health care
No place to be sick

Hunting at sea
Blood and guts

Château Lafite
A mystery uncorked

Rhodes scholarships
Redemption by bequest

Philip Guston
The man who changed his mind

Smoking in Beijing
Out of puff

Pakistan
Three-way struggle

Middle East & Africa

Iraq, Iran and the United States
Whose side are they all on?

Yemen
Anxious times

Zimbabwe
Mixed signals

South Africa
Scorpions stung

Advertisement

Europe

Russia
A strange Kremlin wedding

Italian tax returns
Publish and be taxed

Serbia's election
Balkan ballot

Germany's security strategy
Thinking the unthinkable

Denmark's prime minister
When loose talk may cost a top job

Turkish media
Circulation wars

Charlemagne
Whistling in the dark

Correction: Russia and Lithuania

Britain

The Conservative Party
The big Mo

Scottish politics
Another setback for Gordon

Taxing multinationals
The other tax rebellion

Ethics and the arms trade
Scout's honour

Immigration clampdown
Of stable lads and ballet dancers

Medical training
Dead on arrival

Cannabis and the law
It wasn't like this in my day

Bagehot
The final triumph

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International

Food prices and protest
Taking the strain

Media freedom
Hacks v beaks

Advertisement

Obituary

Albert Hofmann

Economic and Financial Indicators

Overview

Output, prices and jobs

The Economist commodity-price index

The Economist poll of forecasters, May averages

Trade, exchange rates, budget balances and interest rates

Markets

Broad money supply

Advertisement

Classified ads

Jobs
Rule of Law Communications Adviser
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Tenders
Request for Proposal: Development of an Effective and Efficient Financial Management System for the Health Sector in Ethiopia

Property
Business and Assets of Mubuyu Farms Limited
The Joint Receivers and Managers of Mubuyu Farms Limited (....

Jobs
Various
Bosnia & Herzegovina Council of Ministers, Directorate for Economic Planning, Enterprise Sector Rec....

Business / Consumer
Executive Development Program - Inclusive and Sustainable Business: Creating Markets with the Poor ....

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Politics this week

May 8th 2008
From The Economist print edition

AFP

A cyclone devastated southern **Myanmar**, leaving large swathes of the Irrawaddy delta submerged under salt water. The Burmese government reported more than 22,000 deaths, but an American official suggested more than 100,000 people may have died. The ruling junta was criticised for failing to organise evacuations ahead of the cyclone, for the slowness of its relief effort and for obstructing the arrival of foreign aid workers and supplies. See article

China's president, Hu Jintao, paid the first state visit to **Japan** by a Chinese leader for a decade. He spoke of an "everlasting warm spring" in relations, and China promised Japan a new pair of pandas to replace one that died in Tokyo. But the visit was not marked by any breakthrough in talks over a disputed gasfield in the East China Sea. See article

For the first time since last July, and since violence broke out in **Tibet** in March, representatives of the Dalai Lama, Tibet's exiled spiritual leader, met deputy ministers from the Chinese government in the southern Chinese city of Shenzhen. Both sides spoke positively about the talks, but there was no reported agreement on anything. See article

James Huang, **Taiwan's** foreign minister, and Chiou I-jen, its vice-premier, resigned to take the blame for a scandal involving the loss of $30m in government money. The funds were apparently lost in an abortive attempt to buy diplomatic recognition from Papua New Guinea.

Game over

In America's election, **Barack Obama** made a big advance towards sewing up the Democratic nomination by winning North Carolina's primary by 14 percentage points, and coming a close second to Hillary Clinton in Indiana's contest. A big turnout among blacks in both states was a decisive factor in the results. With Mr Obama's share of delegates and the popular vote mightily increased, Mrs Clinton's attempts to woo the party's superdelegates were probably rendered hopeless. See article

The Democrats won a special election for a **congressional seat** in Baton Rouge that had been Republican for more than 30 years. To test strategies for November's general election, Republicans in Louisiana ran political attack ads associating the Democratic candidate in the district with Barack Obama; in this case, the strategy seemed to have failed.

Georgia carried out the **first execution** in the United States for more than seven months. Last month the Supreme Court upheld the constitutionality of the lethal injection procedure used in Kentucky, giving the green light to 34 other states using similar methods.

Grounds for divorce

AFP

Around 85% of voters backed a plan for autonomy in an unofficial referendum in Santa Cruz, **Bolivia's** richest region. The vote was a rebuff to Evo Morales, the country's socialist president, and his plan for a new constitution. See article

Yoani Sánchez, **a Cuban blogger**, was prevented from travelling to Spain to receive the Ortega y Gasset journalism prize. Cuban officials did not give her an exit visa.

Colombia's government extradited Carlos Mario Jiménez (alias "Macaco"), a leading paramilitary warlord, to the United States to face drugs charges.

Human-rights groups objected to the extradition, saying it meant his victims would not be compensated and that he would not have to give testimony concerning murders and other crimes.

Several thousand people in southern **Chile** were evacuated after a volcano erupted.

Farmers in **Argentina** announced a new round of protests against export taxes after negotiations with the government failed.

Jaw-jaw is better than war-war

Talks due to be held between Iran and the United States over security in **Iraq** stalled amid angry accusations by both sides; America says the Iranians are arming Iraqi militiamen who kill American soldiers. Iraq's foreign minister asked the protagonists to soften their language and resume negotiations, adding that he did not want his country to become the battleground in a proxy war. See article

Britain's Court of Appeal confirmed the judgment of a lower court that the People's Mujahedeen of Iran, a group that opposes the government of **Iran**, should no longer be listed as a terrorist organisation, as it is by America and the European Union.

Street battles erupted in **Lebanon's** capital, Beirut, between gunmen loyal to the Western-backed government and others who support the opposition led by the Iranian-backed Shia movement, Hizbullah. Its fighters paralysed the capital by cutting off roads to seaports and airports.

Zimbabwe's Electoral Commission said there must be a run-off between President Robert Mugabe and his challenger, Morgan Tsvangirai, who is officially acknowledged to have beaten him in the first round of a presidential election on March 29th. But a date has yet to be set, and Mr Tsvangirai may not agree to run without better international monitoring. See article

Sudan's government was reported to have widened an offensive against rebels in Darfur, using Antonov aircraft to bomb several villages in the region's north. The United Nations High Commissioner for Refugees, António Guterres, said that the worsening situation in Darfur could prompt another massive displacement of civilians.

Russian dolls

Reuters

Dmitry Medvedev was inaugurated as **Russia's** new president. However, his predecessor, Vladimir Putin, became prime minister, and made clear that he would keep as much power as he could, raising doubts about who will really run Russia. See article

In a rare piece of good news concerning Russian-American relations, the two countries signed a pact to boost their **civilian nuclear trade** and fight proliferation. America's Congress is expected to scrutinise the deal closely.

Britain's prime minister, Gordon Brown, admitted that his Labour Party had taken a drubbing in local elections on May 1st. Most galling for the party was the defeat of the incumbent mayor of London, Ken Livingstone, by the Tory, Boris Johnson. A few Labour parliamentarians floated the idea of a change of leader to stem their party's disastrous loss of popularity. See article

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Business this week

May 8th 2008
From The Economist print edition

Microsoft ended its tentative $47.5 billion bid for **Yahoo!** after negotiations between the companies broke down over the price. Microsoft wanted to pay around $33 per Yahoo! share, lower than the $37 the internet company insists each share is worth. Jerry Yang, the chief executive of Yahoo!, came under pressure from disgruntled investors who had been hoping for a sale. Some observers predicted that Microsoft may yet prevail. See article

Sprint Nextel, America's third-biggest mobile-phone operator, unveiled an alliance with **Clearwire**, an internet-service provider, to create a network based on **WiMax**, a technology that delivers fast wireless-internet access. Other companies, including Google, Intel and Time Warner, are investing in the venture. The deal may allow Sprint Nextel to steal a march on AT&T and Verizon Wireless. Its larger rivals are backing a different wireless technology that will not be ready for two years.

Examined by an analyst

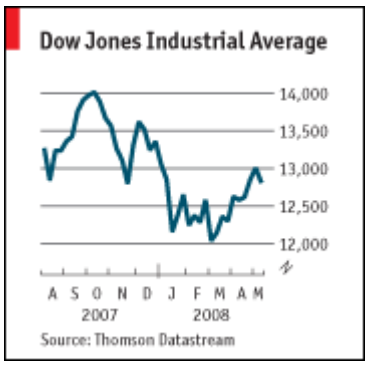
Countrywide Financial's share price took another dive, after an analyst advised that if **Bank of America** went ahead with its proposed $4.1 billion takeover of the stricken mortgage lender it would be saddled with massive writedowns. Although the analyst recommended it “completely walk away” from the deal, BoA gave assurances that it would proceed.

Legg Mason reported its first quarterly loss since it went public in 1983, partly because it booked a $291m charge stemming from bail-outs. The net cash outflow from clients at the fund manager jumped to $19.2 billion, up from $9.1 billion in the previous quarter.

UBS announced it would cut 5,500 jobs by the middle of next year (2,600 of them in its investment-banking business) as part of an effort to repair its tattered balance sheet. The Swiss bank, which has written down $38 billion during the credit crisis, one of the largest sums of any financial group, also said it had sold billions of dollars of subprime debt at a discount to **BlackRock**, an asset manager. See article

A brief respite?

The **Dow Jones Industrial Average** closed above the 13,000 mark on May 1st for the first time since early January. The index has risen by roughly 8% since mid-March. With investors seemingly betting that the worst of the credit crisis is over, other stockmarkets in America and Europe were buoyant as well.



Disney's quarterly net income rose by 22% compared with a year ago. Despite the economic slowdown, the company recorded brisk trade at its theme parks and resorts, where revenue increased by 11%. The weak dollar was said to help, by making it more expensive for Americans to travel abroad and cheaper for foreigners to visit the parks.

Toyota's quarterly net profit fell by 28% compared with a year ago. The carmaker suffered the double whammy of a weak American market and a stronger yen; it also reduced its profit forecast for the year.

Cablevision Systems, a cable-television provider, agreed to pay $496m for **Sundance Channel**, which broadcasts independent films and is co-owned by Robert Redford.

Gushing

The **price of oil** pushed past $123 a barrel. Arjun Murti, an analyst at Goldman Sachs who three years ago forecast that oil would breach $100, estimated that prices could rise to between $150-200 a barrel within two years.

Around a dozen large **oil companies** agreed to pay $423m to settle a lawsuit brought by 153 public **water agencies** in the United States that claimed poor storage of MTBE, an additive mixed with petrol to reduce air pollution, had caused it to leak into water supplies. The oil companies, which are phasing out MTBE, also agreed to pay a large share of the clean-up costs.

An independent committee led by Lord Woolf, a former British chief justice, and established by **BAE Systems** to review its business ethics, said that the British defence company acknowledged that it had not paid “sufficient attention to ethical standards” in the past. BAE welcomed the findings and promised to set higher standards in the future. A British court recently ruled that the Serious Fraud Office had acted illegally when it suspended a probe into an arms contract involving Saudi Arabia and BAE. See article

India's finance minister said that biofuels and speculators were responsible for soaring **food prices** and criticised the practice of converting land use from food to palm oil production. India has placed a ban of trading futures in some crops and is considering extending it to other commodities. Earlier, George Bush upset some Indian politicians by suggesting that the country's increasing prosperity was a factor behind rising prices.

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KAL's cartoon

May 8th 2008
From The Economist print edition

Illustration by Kevin Kallaugher

POWER SHIFT IN THE KREMLIN
THIS IS A GREAT DAY FOR RUSSIA
WOULDN'T YOU AGREE MR. PRESIDENT?
ANYTHING YOU SAY MR. PRIME MINISTER

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The Democrats

Almost there

May 8th 2008
From The Economist print edition

Barack Obama deserves the nomination. It is not yet clear whether he deserves the presidency

AP

IN CARTOONS there is often a moment when a hapless character, having galloped over a cliff, is still unaware of the fact and hangs suspended in the air, legs pumping wildly, until realisation dawns, gravity intervenes and downfall ensues. Hillary Clinton's campaign looks a bit like that this week. After her heavy loss in North Carolina and her barely perceptible victory in Indiana, a state she needed to carry triumphantly, Mrs Clinton's campaign is surely close to its end.

As *The Economist* went to press, Mrs Clinton was publicly still promising to keep on fighting right the way to the Denver convention. That remains her right. But it is hard to see what she, her party or her country can gain from the struggle.

This is largely to do with mathematics. After this week's two primaries, Barack Obama now leads by 166 elected delegates, and counting in the declared “superdelegate” party bigwigs only reduces his lead to 152. A mere six states are still in play. Mrs Clinton would stand a good chance in the first two, West Virginia and Kentucky. But thanks to the Democrats' proportional system, all the states will divide their delegates fairly closely. Mrs Clinton thus needs to win around 70% of the remaining superdelegates—a tall order when she will be behind in the popular vote. Even if she manages to get the hitherto disqualified primaries in Florida and Michigan counted (which, as it stands, would be unfair because nobody campaigned in one and Mr Obama was not on the ballot in the other), then she will come up short in terms of delegates and almost certainly in the popular vote count as well.

If Mrs Clinton bows out in the next week or so, her reputation as a tough fighter—one who has definitively forged a personality separate from her husband's—will have been enhanced. The only justification for her struggling on (assuming the money is there for her to do so) and probably plunging her party into legal warfare, would be the idea that her opponent is somehow unworthy of the nomination—in particular that Mr Obama is bound to lose in November, or that he is bound to be a poor president.

The arugula challenge

Neither charge stands up. This newspaper has hardly embraced Obamamania: we would still like to know more about what the young senator stands for; we have been appalled by some of the anti-capitalist rhetoric he (like Mrs Clinton) has spouted on the campaign trail; we worry about his strategy for leaving

Iraq. But Mr Obama has plainly jumped over most of the hurdles the primary season has laid in front of him.

True, Mrs Clinton seems more popular among white working- and middle-class Americans. That puts Mr Obama at something of a disadvantage against John McCain, the Republican nominee. But arguments about Mr Obama's allure to white voters boil down rather too often to a coded argument about race: would America elect a black man? The United States still has big problems with race (see article), but its effect in the general election may be exaggerated.

Mr Obama's main problem with white voters may have more to do with class than race. To the white working man and woman, he has been seen too often as an aloof elitist, who can't drink whisky, displays a suspicious familiarity with the price of an arugula salad and memorably bowled a deplorable 37 in Altoona, Pennsylvania. Toffishness doomed John Kerry; but with Mr Obama, a child of a single mother who sometimes used food stamps, that picture is surely reversible.

Meanwhile, Mr Obama attracts other voters in a way Mrs Clinton never has. For every white bigot who switches sides because of Mr Obama's skin colour, there is likely to be a white independent—especially a young one—running to support him. The data show that young people, both black and white, prefer Mr Obama. Against Mrs Clinton, Mr McCain might have swept up all the independents; with Mr Obama he will have to split them. Mr Obama has raised money from close to 1.5m individuals, far more than anybody else ever has. That will stand him and his party in good stead come November. Each of those donors will be working hard to make sure that their investment is not wasted: an army of footsoldiers to fight the Republicans.

Tested to the point of destruction

The other point of the primary system is to see what somebody is like under pressure, and to measure their presidential character. Mrs Clinton, for instance, has stood out, thus far at least, by her refusal to quit; Mr McCain by his refusal to compromise on either Iraq or free trade. Mr Obama is a less feisty sort, but he has exhibited enormous grace under pressure. In the past few weeks he has had to cope not just with a fresh set of outpourings from his turbulent former pastor, Jeremiah Wright, now mercifully disowned, but also with Mrs Clinton throwing the kitchen sink—and a lot of sharp cutlery—at him. Mr Obama's refusal to follow her (and Mr McCain) in supporting an idiotic summer suspension of the petrol tax, crude economic populism at its worst, was especially notable.

There is one final reason why Mr Obama is almost there. More than any other candidate this year, he has articulated an idea of a nobler America. That is partly because of who he is. When Mr Obama's parents married, in 1960, a union such as theirs, between a white woman and a black man, was illegal in over half of America's states. Now their son stands at the threshold of the White House. But it also has a lot to do with what he says and how he comports himself. Despite considerable provocation, he has never wavered from his commitment to bipartisanship—nor from the idea of America once again engaging with the world. There are severe problems with the details, on which Mr McCain will hopefully push him even further than Mrs Clinton has, but the upside of an Obama presidency remains greater than that of any other candidate.

For all these reasons, Mr Obama in our view now deserves the Democratic nomination. It is surely not worth Mrs Clinton dragging this to the convention. It is time for her, at a moment of her choosing, to concede gracefully and throw the considerable weight of the Clintons behind their party's best hope.

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Cyclone in Myanmar

Myanmar's misery

May 8th 2008
From The Economist print edition

Despite their appalling government, the Burmese people deserve all the help they can get

AP

Get article background

THE decision by Myanmar's ruling generals to move their capital in 2005 from Yangon, the country's biggest city, to the remote mountain fastness of Naypyidaw was as baffling as many of their other policies. Local rumour ascribed it to the advice of fortune-tellers, who foretold revolt and disaster in Yangon.

Revolt came last September. It was suppressed easily enough, by an army willing to shoot unarmed protesters. Now natural disaster has come, and on an unimaginable scale: a cyclone that has killed tens of thousands, left hundreds of thousands without shelter and placed millions at risk of disease and hunger (see article). In recent years only the Asian tsunami of December 2004 and the Kashmir earthquake of October 2005 have wreaked devastation as great.

You do not have to believe in astrology to see the essential truth behind the fortune-teller rumour, for this is a regime more interested in looking after itself than its people. It failed to prepare them for the approaching danger, despite having been forewarned. Its soldiers, quick enough to respond to monk-led protests last September, were invisible for days as citizens struggled to cope with devastation, death and injury. And, as a horrified world offered help, the generals were obstructive. Aid workers waited for visas and the junta haggled about import duties on emergency supplies. This is criminal. The first few days after a disaster are, in terms of the lives eventually lost, by far the most important.

The politics of saving lives

For foreign donors, Myanmar raises a dilemma seen also in North Korea, which may be on the verge of another famine (see article): how to rescue desperate people whose own government spurns outside assistance, and how to do so without providing a lifeline to an illegitimate and unpopular regime. In the aftermath of a disaster, only the first of these questions matters: when so many are in such need, the humanitarian imperative overrides qualms about giving handouts to a repugnant regime. Nor, on the whole, is there any way of sidestepping the junta (or the North Korean regime) in the distribution of aid. Some foreign aid agencies have existing networks in the country. But none has a nationwide reach.

In theory it may be possible, as France's foreign minister has argued, to obtain a United Nations' resolution obliging the junta to accept aid. In practice, Myanmar's friends on the Security Council would

probably block such a move and it will remain a question of coaxing the generals into accepting help. That means avoiding the risk of feeding the junta's paranoia. It sees the offer of help as the thin end of a wedge of political interference aimed at prising it from power. In this sense it was unfortunate that George Bush's magnanimous offer this week (“Let the United States come and help you!”) was made as he signed legislation awarding a congressional honour to Aung San Suu Kyi, Myanmar's detained opposition leader.

The generals will also have noticed that on the same day Congress passed a resolution condemning their constitutional referendum scheduled for May 10th as “one-sided, undemocratic, and illegitimate”. This is an accurate description of both the process and the constitution the generals want to impose on their people—with such urgency, after 14 years in the drafting, that they have delayed voting in the worst-hit areas by just 14 days. Of course they should postpone the vote. Evil enough in itself as a way of providing some legal cover for the perpetuation of military rule, administering it (and presumably fixing the outcome) is now a distraction from what should be the army's main task: saving lives. However, pressure from America will not make the junta yield. Instead, it will make it even cagier in handling the offers of aid. Postponement would have a better chance if the neighbours who have maintained good links with the junta—Thailand and, especially, China—added their weight to calls for a suspension.

Please, please help you

Encouraging Myanmar's rulers to accept more assistance is more than a short-term problem. Partly thanks to Western sanctions, but largely because of its own go-it-alone policies, Myanmar is among the world's neediest and least-helped countries. Some 30% of its 53m people live below the poverty line. Infant mortality rates are high, at 76 per 1,000 live births. The UN's World Food Programme says that about one-third of children under five are malnourished. Of children enrolled in primary school, 57% drop out. Yet, at $3 per head a year, Myanmar receives proportionately less foreign aid than does almost any other country. Neighbouring Laos receives almost 20 times as much. The cyclone has added another huge—and long-lasting—burden to Myanmar's existing misery. Whatever the regime, it needs more long-term humanitarian aid simply to meet basic needs.

Two faint hopes flicker in the sodden gloom left by the cyclone. The first is the possibility that the need for humanitarian help may lead to a renewed engagement with the West. At the very least it might advertise Western expertise, wealth and generosity, and restore some of the influence that has been lost to Myanmar's big commercial partners in the region. Second, the regime's shocking, bungling response to the crisis might lead even some of its own members to wonder whether their leaders know what they are doing. The army believes it must stay in power because no other force can hold the country together and run it competently. The cyclone must have brought home to some senior soldiers what most civilians have long known, that this is nonsense.

It is not unprecedented for a natural calamity to bring political change: in 1972, the embezzlement by Anastasio Somoza, Nicaragua's dictator, and his cronies of aid sent after an earthquake contributed to the unpopularity that eventually toppled him; more recently, the tsunami was instrumental in bringing peace to Aceh, on the Indonesian island of Sumatra. In Myanmar, superstitious generals and civilians alike will have seen the cyclone as a sign of divine impatience hinting at the looming downfall of a tyrannical government. You don't have to believe in portents to hope that they are right.

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Gordon Brown

The agony of Gordon Brown

May 8th 2008
From The Economist print edition

Britain's prime minister is paying sorely for his mistakes. Is he doomed?

WOULD the Labour Party really consider foisting a second unelected prime minister on Britain? Apparently so. Less than a year after Gordon Brown succeeded Tony Blair, the idea of installing a third front man has become thinkable for some of his erstwhile supporters. That it has come to this reflects the astonishing speed of Mr Brown's fall.

Last summer, when the prime minister handled a series of minor crises reasonably competently, he seemed able to turn floodwaters into wine. His long, scheming wait for the top job appeared to have been triumphantly vindicated. Yet in the local elections on May 1st, Labour recorded its worst result in living memory, including the loss of London's mayoralty to the Conservatives. Mr Brown's personal rating has plunged even more violently. His apotheosis, it now seems, has led only to agony. As a result, some Labour MPs are conducting a campaign against him that is likely to damage not only their leader but also their party's chances of re-election.

The fall

It isn't all his fault. Mr Brown is in part the victim of one of the basic laws of politics: gravity. Assuming the premiership after Mr Blair's decade in office, he also inherited an electorate that had grown bored and increasingly hostile to Labour. He was bequeathed a messy party-funding scandal and a Tory opposition under new and (finally) competent management: David Cameron has stolen many of New Labour's ideas (see article). Nor is it Mr Brown's fault that his succession was followed by a dip in the impressively consistent economic growth over which, as chancellor, he presided, and by biting rises in the price of energy and food over which he has little control.

But Mr Brown is responsible for most of what has gone wrong for him. The collapse of Northern Rock is symptomatic of his basic problem: that Labour has been in power long enough for its mistakes to catch up with it. As chancellor, he introduced a badly designed regulation system, with the result that nobody was really in charge of overseeing the banks when the credit crunch hit. He frittered away cash, with the result that the government is going into an economic downturn short of it. He undermined Mr Blair's public-service reforms, with the result that the government has failed to deliver improvements in education and the health service sharp enough to meet voters' rising expectations. He meddled continually with business, with the result that the private sector is howling about red tape. He fiddled with the tax system, including abolishing a tax band designed to help poor people—a change that has ignited a row in his party that he is battling to defuse.

Mr Brown's character does not help. His new job requires a set of traits—ruthlessness, boldness, a malleable charisma, decisiveness—that might not be attractive in a friend but are necessary in a leader. His leadership defects were especially exposed during the hinge of his premiership thus far: the weeks last autumn when he considered holding a general election. The game-playing exposed Mr Brown's efforts to appear ecumenical—the great Tory-hater taking tea with Lady Thatcher, for instance—as so much cynical manipulation. Worst of all was his behaviour after he pulled back. He first comically denied that opinion polls had affected his decision, then over-hastily emulated a crowd-pleasing Tory tax proposal, leaving an enduring impression of intellectual surrender.

That sorry episode unleashed another near-unstoppable political force: momentum. All political news is now interpreted through the refractive lens of Mr Brown's failings. His few good ideas go unrecognised; unrelated mishaps congeal into a narrative of defeat. The Tories, meanwhile, are soaring in the opposite direction. Their momentum is scaring Labour MPs, who made Mr Brown their leader without demur, into distancing themselves from him or embracing outright defeatism—a panicked fickleness that serves only to dig their collective hole deeper.

Can Mr Brown reverse the dynamics? He has been offered no shortage of advice from his party. Turn left, say those who never much cared for the New in New Labour, and in his weakness see a chance to ditch it. Smile more, say others—though when Mr Brown tries to speak human he seems less convincing than when he sticks to macroeconomics. There are a few who, despite the risk of looking chaotically undemocratic, simply enjoin him to go: over half the Labour supporters in a Populus poll for the *Times* want him out.

Mr Brown can scarcely complain about disloyalty, for he helped to inculcate a taste for plots and mutinies during his long march to Downing Street. But would his removal improve things? From the Labour Party's point of view, there are too many flimsy contenders to replace him and scarcely any serious ones. The struggle to get rid of a leader causes lasting damage—as the Tories, who only recently recovered from the civil war unleashed by the ouster of Lady Thatcher, know well. Besides, the Tories need a huge swing to form a government at the next election, probably in 2010. They are still planning for a hung parliament. Scandal, or an eruption of atavistic, Conservatism may yet weaken Mr Cameron. The new mayor of London, Boris Johnson, now an icon of Tory resurgence, may embarrass his party (see article).

Too early for an execution

From the country's viewpoint, it is even harder to see why Mr Brown needs the *coup de grâce* just yet. Britain is not being overtly misgoverned, and nobody else in Labour is promising anything radically different. And Mr Brown may yet improve. To do so, he needs to articulate his basic political creed—essentially a meritocracy leavened with egalitarianism—better than he has managed to do so far. And, from this newspaper's point of view, he needs to commit unequivocally to the course of public-service reform eventually set by Mr Blair, then pursue it with dogged competence.

If he does this, especially if the economy recovers, he will have a chance against the Tories. Otherwise, he will go down in history as the worst sort of political failure: the sort who schemes to get a job and then has no idea what to do with it.

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The Palestinians

Still stateless after all these years

May 8th 2008
From The Economist print edition

They need the world's help. But the Palestinians could also help themselves

EPA

THIS week Israelis celebrate and Palestinians mourn the war of 1948 that created a state for the Jews but resulted in the flight of a large portion of Palestine's then Arab majority. After 60 anniversaries the fate of the two sides is as lopsided as ever. Israel is not just an established state but a dynamic and prosperous one. By contrast, the lot of the Palestinians is wretched (see article). The state they were promised under the UN partition plan of 1947 remains tantalisingly beyond reach, even though almost every government in the world, including those of America and Israel, claims to support the creation of such a state in the West Bank and Gaza.

How to explain the perpetuation of this conflict as the generations pass by? The contending answers fill a thousand libraries. Both sides have a stubborn narrative of righteous victimhood, each promoted eloquently by its respective posse of indignant partisans. To many outsiders in the West the interminable squabble is so familiar that it is becoming merely tiresome: a sad, stuck, tribal quarrel from the 1940s that seems impossible to resolve and so might as well be ignored.

This feeling of baffled impotence is a danger. The world has a moral obligation to help the Palestinians. But self-interest is at stake as well. However tired people in the West may be of Palestine and its woes, this cause electrifies millions of Muslims and helps to stir the global *jihad*. If it is soluble at all, it can certainly never be solved without the full attention of America, the only country which Israel really trusts and that has the power to coax or coerce it into territorial compromise. That is why most of this decade has been wasted: a distracted or uninterested George Bush claimed to believe in Palestinian statehood but did nothing serious to bring it about, failing even to slow Israel's colonisation of the West Bank.

America's next president must not repeat this mistake. But if America is a necessary part of the solution in Palestine, it is not sufficient. The Palestinians must play their part too. They desperately need an effective and pragmatic leadership capable of negotiating and implementing a peace based on partitioning Palestine into two states. Yet their leaders are more divided than ever. The pragmatists led in the West Bank by Mahmoud Abbas of Fatah are not effective. The rival Hamas leadership in the Gaza Strip is extremely effective but says it does not believe in a permanent peace based on partition.

Top marks for consistency, zero for sense

Sixty years ago, too, the Palestinians refused partition and ended up stateless. If rejecting partition was a mistake then, it is a bigger one now that Israel's population has increased eightfold. To say that Israel should never have been created and must be dissolved is not only utterly unrealistic; it is also to propose

correcting one injustice by perpetrating another.

And yet this remains Hamas's formal position. True, its leaders hint that if Israel gave up all the territory conquered in 1967 it would earn a long-term truce, which just might one day become permanent. But that hinted future possibility is not a wager Israelis are likely to take. Meanwhile, the longer Hamas claims to reject the very idea of Israel's permanence, the easier it is for Israel to dig into the West Bank and the harder it is for America to believe in, let alone press for, a breakthrough to peace. The Hamas retort is that Yasser Arafat's Oslo talks achieved little for the Palestinians. Wars got them less.

After generations as history's losers, the Palestinians deserve a better future. But they can help themselves by putting history behind them and coming to terms, as the Israelis say they already have, with the obvious. A peaceful future is possible only with two states, not just the one.

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America's housing

Home truths

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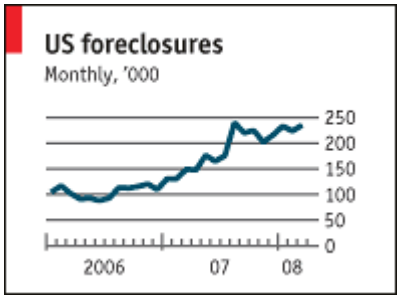
From The Economist print edition

Congress can't stop people losing their homes, but it can do a little to help



AMERICA'S policymakers have fought the credit crunch with gusto. The Federal Reserve has slashed interest rates, pumped liquidity into markets and spun a new safety net for investment banks. Politicians have applied a fiscal stimulus and, to keep housing finance flowing, relaxed prudential controls on government-sponsored mortgage lenders. As *The Economist* went to press, the House of Representatives was set to vote on the latest plan: to stem foreclosures and stabilise house prices by allowing the government to reinsure up to $300 billion of problem loans through the Federal Housing Administration (FHA).

It is not hard to see why politicians are so keen to help. For all the hope that the worst may be over in financial markets, the housing mess is getting nastier. Nationally, house prices have fallen between 3% and 13% depending on which index you look at. And they have further to sink. The stock of unsold homes is huge and the ratio of prices to rents suggests that property is still expensive (see article). Some 1.5m households went into foreclosure in 2007, up 50% from the year before. And with 9m people owing more than their house is worth, that figure is likely to soar.

In general, governments should not try to prop up prices in inflated markets. However, as Ben Bernanke, the Fed chairman, argued this week, there is a case for government intervention to avoid unnecessary foreclosures. Evicting a homeowner and selling his property takes months, during which vandalism and legal fees can destroy a large part of the home's value—and drag down the price of the neighbours' homes as well. Borrowers and lenders would often be better off renegotiating and writing down loans than going through foreclosure. Yet securitisation has made it harder to reschedule loans and nobody knows how far house prices will fall. Too few home loans have been renegotiated.

So is the FHA plan the answer? Supporters, from Wall Street financiers to all three presidential candidates, claim it will do great things: save 1.5m people from losing their homes and, as a result, help to stabilise house prices. Opponents, including the veto-wielding Bush White House, lambast it as a misguided taxpayer rescue for the imprudent. Neither is true.

Criticism notwithstanding, the plan is hardly a bail-out. Lenders would have to write down their loans to 85% of the current value of a house. Borrowers would pay a fee for the insurance and give up a share of any later price rise to the government. By reinsuring more mortgages, the government would take on more risk, but the bean-counters at the Congressional Budget Office (CBO) put the explicit subsidy at about $1.7 billion over five years—a fiscal rounding error rather than a reckless handout. Yet because the plan involves little government cash and is voluntary, its effects will be modest, helping half a million households at most avoid foreclosure, according to the CBO. For all the hoopla, the FHA plan will be a useful addition to the anti-foreclosure tool-kit. But it will do less than its supporters hope—or its detractors fear.

The virtues of modesty

That is no bad thing. The role for government is to prevent more foreclosures than necessary, not to prevent them altogether. Given the scale of likely house-price declines and the laxity of lending standards during the bubble, many Americans are in homes that they cannot afford. In these cases, the right answer is to make foreclosure faster and less damaging to everyone else, so that homes can swiftly be bought by people who can pay for them. A useful counterpart to the FHA plan would be a federal effort to streamline the states' convoluted foreclosure laws. You will not be surprised to hear that no politician has supported that.

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Russia's new president

Enter, pursued by a new bear

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The West should hang tough with President Dmitry Medvedev

Reuters

IT HAS been a busy week in Moscow. First Dmitry Medvedev was inaugurated president. A day later his predecessor, Vladimir Putin, became his new prime minister. Then on May 9th Moscow planned to mark the annual Victory Day celebrations with the first parade of tanks and nuclear missiles through Red Square since the end of the cold war. What should the watching West make of all this?

One of these three events seems to offer more hope than the other two. Mr Medvedev is the first Russian leader since the tsars to have come from neither the security services nor the old Communist Party. And judging by what he says, including in his inaugural speech, he has some liberal instincts and an understanding of why the rule of law matters. Yet he also arrives in office weighed down by two troubling burdens.

The first is Mr Putin. Moscow has been rife with speculation about who will really be in charge ever since Mr Putin chose his long-time protégé and lawyer as his successor. For now, the answer appears to be either that nobody knows, or that it will still be Mr Putin. In the run-up to the inauguration, Mr Medvedev has been far less visible than Mr Putin. Even at this week's ceremony, Mr Putin seemed the dominant figure. This is by no means a real transfer of power (see article).

Mr Medvedev's second burden is his inheritance. Mr Putin became acting president, on the last day of 1999, at an auspicious time for Russia. The economy was booming after the 1998 devaluation, oil prices were climbing and ordinary Russians (and the outside world) seemed relieved to have stability and order in place of the chaos that marked the final years of Boris Yeltsin's presidency. In contrast, Mr Medvedev comes in when the economic outlook is gloomier and inflation is soaring. The oil price seems unlikely to keep going up and there are ominous signs that Russia is having serious problems sustaining its oil output (see article). Moreover, Russia's relations with the West have hit new lows—which may explain Moscow's drum-beating Victory Day parade.

Do bears shoot in the woods?

Despite this, many in the West are itching to extend an olive branch to the new president. The Kremlin's power is immense, so even if Mr Medvedev starts in Mr Putin's shadow, he may in time emerge from it. It is always tempting to try a soft approach on a new Russian president, just as it was with Mr Putin. But this time, Western political leaders should be far more cautious. There is no sign that Russia is moving in a more liberal and democratic direction at home, or that it is going to be more accommodating to the

West abroad. It seems far more likely that it will continue to play the divide-and-rule game started by Mr Putin, who deftly exploited differences among European Union leaders, in particular.

The best approach to Mr Medvedev will be to heed what he does, not what he says. For example, if he gave parole to Mikhail Khodorkovsky, an oligarch imprisoned without even a pretence at a fair trial, dropped Russia's belligerent posture towards Georgia, began to open up state-run television to alternative voices, and initiated a crackdown on corruption, then it would be right to respond in a friendly fashion. But hard evidence is needed before taking such a step. Above all, Western leaders must be united. *Medved* means bear in Russian—and the worst way to respond to a bear is to display overt weakness or to scarper in different directions.

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On Colombia, Jewish refugees, currencies, Cuba, John McCain, Macedonia

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Colombia's past and present

SIR – It is not right to suggest that Colombia's President Álvaro Uribe had originally planned to give an amnesty to demobilised paramilitaries ("The Uribe temptation", April 19th). The "justice and peace law", as initially defined, sought to give the opportunity to all members of the guerrilla and/or paramilitary groups who had not committed crimes against humanity to be brought to justice. If they told the truth and took steps to compensate their victims they would be entitled to shorter periods of imprisonment.

So far most members of the paramilitary groups have surrendered according to this law. However, on several occasions the guerrillas have said they will not accept any judicial punishment.

Past efforts in Colombia to get the guerrillas to submit to the judicial process were based upon pardons that overlooked their crimes. The current process is the first to be based on truth, justice and reparations.

Noemi Sanin Posada
Ambassador for Colombia
London

SIR – The decision by the United States Congress to delay consideration of the free-trade agreement (FTA) with Colombia is not, as you suggest, because the Democrats have something "against Colombia". Last year Congress approved hundreds of millions of dollars in aid for Colombia, and such assistance will probably continue. The debate over the FTA revolves around a separate question: whether free trade should trump human-rights concerns, or whether it should be premised on respect for human rights, especially the rights of workers producing the goods to be traded.

If you agree with the latter view then it logically follows that before ratification of the FTA, Colombia must show progress in addressing the killings (with near-total impunity) of trade unionists and the influence of paramilitary death-squads who are responsible for much of the anti-union violence.

Colombia's status as an ally should not lead the United States to turn a blind eye to serious human-rights problems. Congress is right to shift course and show that it means what it says when it talks about human rights.

José Miguel Vivanco
Americas director
Human Rights Watch
Washington, DC

A refugee's tale

SIR – Resolutions that recognise the plight of Jews forced to flee from the Arab world when Israel was founded are not primarily about compensation ("Let there be justice for all", April 12th). What we want most of all is to tell our side of the story. For 60 years the focus has been on the Palestinians, with nothing much said on the brutal expulsion of nearly 1m Jews from the Arab world and Iran. No trial; no jury; no justice. Human-rights organisations did not call attention to this crime against humanity. The United Nations did not convene the Security Council to censure the Arab countries. British academics did not seek to divest from these countries.

“Who is fighting for my rights?” I asked in 1948 when I was 12 years old and living in Cairo. This was when the Arab League likened its “war of extermination...to the Mongolian massacre and the Crusades” and after the Mufti of Jerusalem exhorted Palestinian Arabs to kill Jews “wherever you find them”. The Middle East conflict created not one, but two refugee populations.

Joseph Abdel Wahed
Moraga, California

Dollars and sense

SIR – Your practice of converting sterling and other currencies into dollars is generally useful, but surely inappropriate in the case of the “10p” income tax rate (“Beleaguered Mr Brown”, April 26th). The tax rate is properly a 10% rate rather than a 10p rate and it does not add to comprehension to convert it to $0.20.

Tony Welsh
Houston

Cuba's classic cars

SIR – There was indeed a time when Cuba's pre-1959 cars were considered to be “relics from the island's capitalist past”, but times have changed (“Fins ain't wot they used to be”, April 26th). These imported “Yank tanks” can be bought and sold but not taken out of Cuba. The world's largest fleet of antique vehicles is now protected as a national asset. These iconic cars are valuable to the country, as important to tourism as the cable cars of San Francisco or the gondolas of Venice.

With the assistance of enthusiasts in America preparations are under way for reconditioning Cuba's ageing fleet so it runs cleanly and efficiently. Restoring the cars will also help restore relations between Cuba and the United States by fostering friendship and goodwill among thousands of aficionados.

John Dowlin
TailLight Diplomacy
Philadelphia

McCainomics

SIR – Your leader on John McCain's economic policies stated that the alternative minimum tax “is a complex and perverse system which needs to be phased out; but such a phase-out will need to be paid for” (“One cheer for the Arizona senator”, April 19th). It is disingenuous to make such a claim because the AMT generates revenue that should not have materialised in the first place.

Profligate spenders in Congress have come to rely on this unfair windfall and must learn to restrain their reckless impulses, irrespective of which party wins in November's general election. The tax should be abolished, and spending brought into line.

James Knaus
Global Wealth Advisors
Troy, Michigan

SIR – I disagree that the American tax code needs to be streamlined to “just two bands”, which Mr McCain wants to do. This oversimplified structure would hurt those at the bottom and help those at the top. There is an obscene and immoral chasm between our most needy and our criminally overcompensated: relying on only two brackets would not be just.

Jim Diehl
San Francisco

Sharing a name

SIR – In order to help us “understand Greek sensitivities” over the use of the name Macedonia by Greece's northern neighbour, Dimitris Pantelidis asks how the citizens of Newcastle would react if counties in southern Scotland declared themselves the independent country of Northumbria (Letters,

April 19th). As placidly, I suspect, as the inhabitants of the south-eastern Belgian province of Luxembourg react to the existence of the Grand Duchy of that name right next door.

Leofranc Holford-Strevens
Oxford

SIR – Mr Pantelidis need not have contrived such a far-fetched hypothesis about naming nations. Consider the French region of Brittany. Under the pretence of occupying so-called holiday homes, thousands of citizens of *la Grande Bretagne* are already in place as a fifth column waiting for the signal to rise up and secure Brittany's true destiny.

Michael Metcalf
New York

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Black America

Nearer to overcoming

May 8th 2008 | ATLANTA AND HARLEM
From The Economist print edition

Eyevine

Barack Obama's success shows that the ceiling has risen for African-Americans. But many are still too close to the floor

WHEN Roland Fryer was about 15, a friend asked him what he would be doing when he was 30. He said he would probably be dead. It was a reasonable prediction. At the time, he was hanging out with a gang and selling drugs on the side. Young black men in that line of work seldom live long. But Mr Fryer survived. At 30, he won tenure as an economics professor at Harvard. That was four months ago.

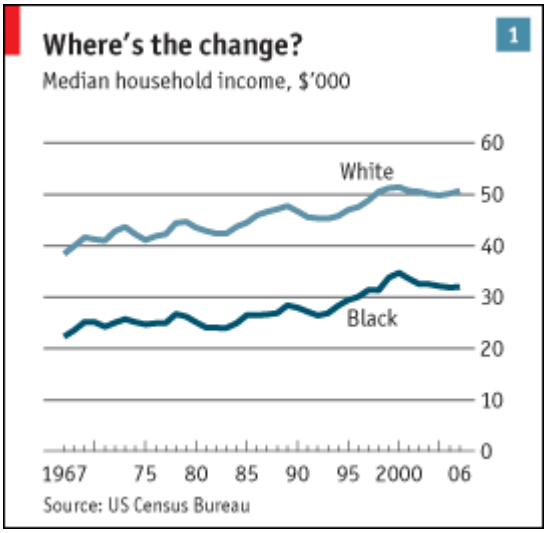
Mr Fryer's parents split up when he was very young. His father was a maths teacher who went off the rails: young Roland once had to borrow money to bail him out of jail. His great-aunt and great-uncle ran a crack business: young Roland would watch them cook cocaine powder into rocks of crack in a frying pan in the kitchen. Several of his relatives went to prison. But Mr Fryer backed away from a life of crime and won a sports scholarship to the University of Texas. He found he enjoyed studying, and was rather good at it. By the time he was 25, the president of Harvard was hectoring him to join the faculty.

Mr Fryer now applies his supple mind to the touchy, tangled issue of racial inequality. Why are African-Americans so much less prosperous than whites? Why do so many black children flounder in school? Why do so many young black men languish behind bars? Why are stories like Mr Fryer's considered so surprising?

Black and white Americans tend to produce different answers to these questions, and there is also heated disagreement within both groups. Some blacks think their glass is three-quarters full; others think it three-quarters empty. Optimists can point to obvious improvements. Little more than four decades ago, blacks in the South could not vote. This year, a black man may be elected president. Under segregation, southern blacks were barred from white schools, neighbourhoods and opportunities. Now, racial discrimination is both illegal and taboo. Blacks have pierced nearly every glass ceiling. The secretary of state, the boss of American Express and the country's most popular entertainer (Oprah Winfrey) are all black.

Life for the average African-American has also improved remarkably. The median black household income has risen from $22,300 (in 2006 dollars) in 1967 to $32,100 in 2006. Black life expectancy has soared from 34 in 1900 to 73 today. Most blacks today are middle class.

Yes, say the pessimists, but the gap between what blacks and whites earn and what they learn, which narrowed steadily between the 1940s and the late 1980s, has more or less frozen since then. Blacks' median household income is still only 63% of whites'. Academically, black children at 17 perform no better than a white 13-year-old. Blacks die, on average, five years earlier than whites. And though the black middle class has grown immensely, many blacks are still stuck in crime-scorched, nearly jobless ghettos.



What ails black America? Public debate falls between two poles. Some academics and most civil-rights activists stress the role played by racial discrimination. It may no longer be overt, they argue, but it is still widespread and severe. Julian Bond of the National Association for the Advancement of Coloured People reckons that racism is still "epidemic" in America.

Black conservatives, while never denying that racism persists, think it much less severe than before and no longer the main obstacle to black advancement. Bill Cosby, a veteran comedian, tours the country urging blacks to concentrate on improving themselves: to study hard, to work hard and—especially—to shun the culture of despair that grips the ghetto.

The debate is often bitter. Michael Eric Dyson, a leftish academic, argues that the black middle class has "lost its mind" if it believes Mr Cosby's argument downplaying the importance of race. Larry Elder, a conservative pundit, wrote a book about blacks who blame racism for nearly everything called: "Stupid Black Men".

Mr Fryer eschews histrionics in favour of hard data. He is obsessed with education, which he calls "the civil-rights battleground of the 21st century". Why do blacks lag behind whites in school? Mr Fryer is prepared to test even the most taboo proposition. Are blacks genetically predisposed to be less intelligent than whites? With a collaborator from the University of Chicago, Mr Fryer debunked this idea. Granted, blacks score worse than whites on intelligence tests. But Mr Fryer looked at data from new tests on very young children. At eight months to a year, he found almost no racial gap, and that gap disappeared entirely when he added controls for such things as low birth weight.

If the gap is absent in babies, this suggests it is caused by environmental factors, which can presumably be fixed. But first they must be identified. Do black children need better nutrition? More stimulation in the home? Better schools? Probably all these things matter, but how much? "I don't know," says Mr Fryer. It is a phrase that, to his credit, he uses often.

Cool to be dumb

His most striking contribution to the debate so far has been to show that black students who study hard are accused of "acting white" and are ostracised by their peers. Teachers have known this for years, at least anecdotally. Mr Fryer found a way to measure it. He looked at a large sample of public-school children who were asked to name their friends. To correct for kids exaggerating their own popularity, he counted a friendship as real only if both parties named each other. He found that for white pupils, the higher their grades, the more popular they were. But blacks with good grades had fewer black friends than their mediocre peers. In other words, studiousness is stigmatised among black schoolchildren. It would be hard to imagine a more crippling cultural norm.

Mr Fryer has some novel ideas about fixing this state of affairs. New York's school system is letting him test a couple of them on its children. One is to give pupils cash incentives. If a nine-year-old completes an exam, he gets $5. For getting the answers right, he gets more money, up to about $250 a year. The notion of bribing children to study makes many parents queasy. Mr Fryer's response is: let's see if it works and drop it if it doesn't.

Another idea, being tested on a different group of children, is to hand out free mobile telephones. The phones do not work during school hours, and children can recharge them with call-minutes only by studying. (The phone companies were happy to help with this.) The phones give the children an incentive to study, and Mr Fryer a means to communicate with them. He talks of "re-branding" academic achievement to make it cool. He knows it will not be easy. He recalls hearing drug-pushers in the 1980s

joking “Just say no!” as they handed over the goods, mocking Nancy Reagan's anti-drug slogan.

Blacks who do well in school are hungrily recruited by universities, which often admit them with lower test scores than are required of whites or Asians. The bar was first lowered for blacks out of a sense that America owes them a debt for past discrimination. Now universities are more likely to argue that racial diversity is valuable for its own sake.

But racial preferences are unpopular among whites, and the most blatant ones are, increasingly, illegal. The University of Michigan used to give applicants more points for being black than for getting a perfect score on the entrance exam. The Supreme Court deemed this unconstitutional in 2003, but ruled that less explicit preferences might be allowable.

When voters are asked if they want to ban racial preferences in the public sphere, they generally say yes. Since the 1990s, three states have passed referendums barring racial preferences, and four more may do so in November. Opponents of racial preferences argue that they are bad for blacks, too.

A study by Richard Sander of the University of California, Los Angeles, found that when the bar is lowered for black applicants to law school, they are admitted to institutions where they cannot cope. Many who drop out of top-tier colleges might have thrived at slightly less competitive ones. Mr Sander calculated that the net effect of pro-black preferences was actually to reduce the number of blacks who passed the bar exam. That is, racial preferences for black law students result in fewer black lawyers. John McWhorter, the author of “Winning the Race: Beyond the Crisis in Black America”, argues that lowering the bar for blacks also reduces their incentive to excel at school. “As long as black students have to do only so well, they will do only so well,” he says.

For every dollar that a white man earns, a black man makes only 70 cents. Such figures are sometimes bandied around to imply that nearly all of this gap is caused by discrimination. That is bunk. If a firm could really get the same work done 30% more cheaply simply by hiring blacks, someone would have noticed and made a fortune doing just that.

That said, blacks certainly face barriers in the job market. Two economists, Marianne Bertrand and Sendhil Mullainathan, sent out 5,000 replies to job advertisements in Boston and Chicago. Each fictitious applicant was randomly assigned either a black-sounding name, such as Jamal or Lakisha, or a white one, such as Emily or Greg. For every ten jobs the “whites” applied for, they were offered one interview. The “blacks” had to post 15 letters to elicit the same response. Clearly, some managers are racist. But many are not. And many firms are desperate to hire and promote blacks, if only to avoid lawsuits.

The short straw

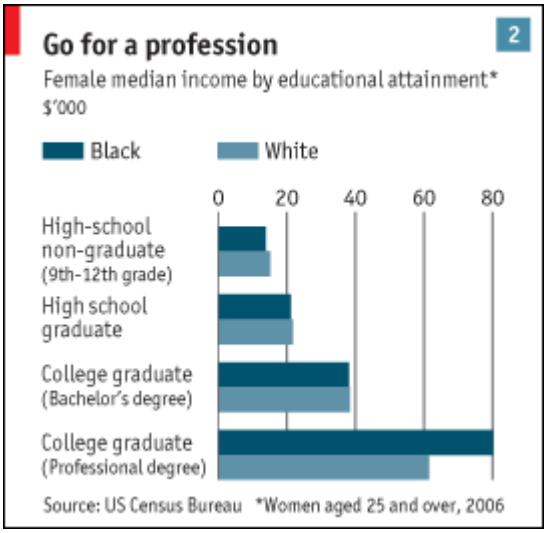
Looked at more closely, the statistics are murky. White men are more likely to work than black men. The proportion of black men participating in the labour force fell from 74% in 1972 to 67% last year. Whites start more businesses, too. Only 5% of firms are black-owned, though blacks account for 13% of America's population.

A black woman with a degree earns as much as a white woman with a degree. But with a professional degree, the black woman earns 30% more (see chart 2). That does not prove that law firms discriminate in favour of black women—though they may. Another explanation is that a skilled white woman is more likely to have a rich husband (or indeed any husband), and so may have less incentive to maximise her earnings.

Even when blacks earn as much as whites, the whites are typically far wealthier. In 2000 the average white household in the bottom fifth of income-earners had net assets of $24,000. The figure for blacks was a piffling $57. Whites in the middle fifth were five times wealthier than their black counterparts.

Partly this is because whites inherit more. But it is also because of different approaches to investment. Blacks are more likely to put their money in the bank, notes Mr Fryer. Whites are more likely to invest in shares, which generate higher returns. Compound this over a couple of generations and the effect is colossal.

Another crucial factor is the collapse of the black family. The proportion of black babies born out of wedlock has nearly doubled since 1970, to 69%. And 70% of these births are to mothers who are truly alone, not cohabiting. Stable two-parent families accumulate wealth more easily than single-parent homes. Two salaries stretch further, two pairs of hands mean less need for paid child care. Two-parent families also find it easier to raise well-adjusted, studious children, who go on to start stable families of their own. Broken families, if middle class, find it harder to stay that way. And if they start in the ghetto, they find it harder to break out.



“Black life is not valued!” booms Michael Walrond, a popular pastor in Harlem. He is referring to the news that three police officers were acquitted of all charges after shooting dead an unarmed black man, Sean Bell, a few hours before his wedding. The cops fired 50 bullets, but the pastor says he is outraged by the figure of 31. Members of his mostly black flock know immediately what he means. Two of the officers were black and all of them thought Mr Bell had a gun. But it was the white officer who reloaded and fired 31 rounds. Mr Walrond's angry sermon draws cheers.

Afterwards, in his office, he agrees that it is not only whites who devalue black lives: black criminals do too. Mr Walrond, like many inner-city clerics, works hard to reform those who stray. But like Barack Obama's former pastor, Jeremiah Wright, he tends to assume the worst about his country. He finds Mr Wright's theory that the government concocted the AIDS virus to kill blacks “credible”.

He refers to the Tuskegee experiment between 1932 and 1972 when some doctors in Alabama deliberately neglected to treat black syphilis patients in order to study the disease's progression. That was an abomination. But it is hardly evidence that the government is bent on genocide.

From alienation to despair

Is the state racist? Those who think so often point to the criminal-justice system. A startling 11% of black males aged 20-34 are behind bars. Overall, black men are seven times more likely to be incarcerated than white men. Until recently, sentences for crack offenders (who are mostly black) were much harsher than those for powder-cocaine offenders (mostly white). Ex-convicts in several states are barred from voting, a penalty that deters no crime but signals to wrongdoers that they can never be full citizens again. “We are becoming a nation of jailers, and racist jailers at that,” reckons Glenn Loury, an economist.

Not so, says Heather Mac Donald of the Manhattan Institute, a conservative think-tank. Blacks are more likely to be jailed because they commit more crimes, she argues. In 2005 the black murder rate was seven times higher than that for whites and Latinos combined. Harsh crack laws account only for a smidgeon of the disparity in incarceration rates. In 2006 blacks were 37.5% of state prisoners; exclude drug offenders and that figure drops to 37%. And since black criminals' victims are mostly black, some argue that locking more of them up has saved many black lives.

In other ways, it is far from clear that the government is trying to keep blacks down. Affirmative-action policies mean that it provides jobs for a disproportionate number of them. It also allows blacks who own small businesses to charge 10% more than whites and still win federal contracts. “Small” is generously defined. A firm with 1,500 employees can qualify. Its black owner can be worth $750,000—excluding his home and business—and still be deemed “economically disadvantaged”.

Yet many blacks feel alienated in a way that is “vastly disproportionate to real-life stimulus,” frets Mr McWhorter. When New Orleans flooded, some speculated that the government had blown up the levees. Even cooler heads believed that the botched response stemmed from George Bush's indifference to black suffering.

Alienation has consequences. Amid the revolutionary fervour of the 1960s, says Mr McWhorter, many blacks learned that “America's racism rendered it unworthy of any self-regarding black person's embrace and that therefore blacks were exempt from mainstream standards of conduct.” The conventional wisdom about ghettos—best expressed in William Julius Wilson's book “When Work Disappears”—is that inner

cities decayed because factories moved away. But the jobs often moved only a couple of bus rides away. Noting that millions of blacks moved halfway across the country to find work during the “great migration” in the early 20th century, Mr McWhorter wonders why so many of their descendants failed to follow suit.

He offers two explanations. First, a huge expansion of open-ended welfare in the 1960s enabled mothers to subsist without work. Until the mid-1990s, welfare often paid better than an entry-level job. Second, the counter-culture taught young blacks that working for “chump change” was beneath their dignity.

Bill Clinton fixed welfare and pushed millions of jobless women into work. Violent crime has also fallen sharply since the 1990s, despite the best efforts of gangster rappers to glorify it. Previously dysfunctional cities, such as New York and Washington, DC, are now soberly governed and better places to live in.

Yet many African-Americans are intensely gloomy. In a poll last year, only 44% said they expected life for blacks to get better, down from 57% in 1986. The subprime mortgage crisis, which will cost many black families their homes this year, will surely deepen the gloom.

Some blacks contend that racism has simply gone underground. Ellis Cose, a journalist, once wrote that even middle-class blacks suffer constant subtle racial slights, and that these are so distressing that they “are in the end most of what life is”. Other blacks think he exaggerates. Sometimes, says Mr McWhorter, the assistant trailing you in a store is just trying to sell you something.

If Barack Obama can only...

Taking the longer view, there is much to cheer. In every way that can be measured (a big caveat), racism has diminished in the past two generations. Inter-racial marriages are up sevenfold since 1970. Young Americans are far less likely to express racial animosity than their elders, suggesting that as old bigots die, they will not be replaced. And if Mr Obama becomes president, it would “raise the ceiling for everyone,” says Robert Franklin, the president of Morehouse, a black college in Atlanta.

“For me, racism is not going to be an obstacle,” says DeWayne Powell, a student at Morehouse. He recalls an incident when, en route to drop off his college application, he stopped to ask for directions. A white receptionist asked sneeringly whether he could read. “I laughed,” he says. “I thought: I'm on my way to fulfil my destiny, and you're stuck behind that glass.”

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The Palestinians

The wandering Palestinian

May 8th 2008 | NABLUS AND NAHR AL-BARED
From The Economist print edition

AFP

Whether they be in Nahr al-Bared (shown below), Nazareth or Nablus, Palestinians are united by loss and by hope

NAHR AL-BARED in Lebanon was a wind-blown huddle of tents when the first refugees straggled here from Galilee in 1948, the year of the Palestinian *nakba* or catastrophe. Yet the camp somehow prospered, in spite of the Lebanese laws restricting Palestinians, and despite the influx of yet more refugees during Lebanon's 1975-90 civil war. By last year it had grown into a crowded but congenial town of 35,000, complete with apartment blocks, schools and clinics. The seaside camp was home to the busiest market in northern Lebanon, but also to a growing band of dour, bearded and fearsomely well-armed Islamist radicals.

They hailed mostly not from Palestine but from Saudi Arabia, Iraq, Syria and other countries that were making life difficult for *jihad*-obsessed Sunni militants. Nahr al-Bared's regular residents tended to shun them. But there was little they could do to keep the 500 or so newcomers out. The feeble Lebanese state takes no responsibility for its 12 Palestinian camps, and the refugees' own institutions have weakened with the decline of the once-dominant Palestine Liberation Organisation (PLO).

Last May police in the nearby city of Tripoli clashed with members of the group. Their comrades took revenge by attacking Lebanese army posts, then retreated into Nahr al-Bared. Worried by the addition of al-Qaeda-style radicals to Lebanon's boiling sectarian stew, the army responded with fury. Its siege of Nahr al-Bared lasted 106 days, during which the camp's entire population was forced to flee and watch their homes being pounded into dust by artillery fire. By the time the Lebanese army declared victory in September, some 47 civilians, 167 Lebanese soldiers and a claimed 287 armed guerrillas were dead.

The camp is slowly reviving. Ten thousand residents have returned to the less damaged outlying areas. The owner of a makeshift café on the rutted main street has painted a jaunty sign in rainbow colours. “We Shall Rebuild Al Bared and We Shall Return To Palestine”, it promises.

Yet the utterly flattened centre of the camp, which housed 20,000 refugees, remains off-limits. Yasser al-Hajj, a 27-year-old engineer whose family came here from Safad in northern Palestine (now part of Israel), takes a break from shovelling rubble out of a friend's wall-less living room to point towards one of a dozen tilted stacks of collapsed concrete that loom just beyond a Lebanese army checkpoint. The four-storey building contained all his extended family's belongings, as well as their wholesale grocery business, the fruit of 60 years' struggle in exile. Mr al-Hajj assumes they have lost everything. “This is my generation's *nakba*,” he says dryly.

Such bitterness is widely shared among the world's 10m Palestinians, 70% of whom are refugees or their

descendants. Other peoples have suffered great tragedies, but the Palestinians' trauma not only refuses to reach closure, it has a horrible habit of repeating itself. Worse yet, its effects continue to poison politics within the wider region and beyond. In annual polling over the past six years, three-quarters of Arabs consistently place the issue of Palestine among their priorities.

In other words, little has changed since 1948, when street sentiment prompted five reluctant Arab governments to send troops on a vain mission to block the creation of Israel. During the ensuing war, the Palestinians' initial *nakba,* more than half the native population of Palestine, some 750,000 people, fled or were driven from the territory that became the Jewish state, whose troops then barred their return and systematically razed 531 of their ancestral villages. The six-day war in June 1967 brought the remaining 22% of historic Palestine under Israeli rule, and pushed out 250,000 more refugees.

In exile, Palestinians have been harassed, attacked or chased away. PLO fighters were forced to flee Jordan after an uprising in 1970. Lebanese Christians destroyed the camps of Tel Zaatar and Qarantina in the 1970s, and massacred Palestinians at Sabra and Chatila in 1982. Israelis besieged the PLO in Beirut the same year, sending PLO leaders to secondary exile in Tunis, and the Syrians did the same in Tripoli in 1984. In 1991 300,000 Palestinians, many of them wealthy and long-settled, were hounded from Kuwait after their leaders foolishly praised Saddam Hussein's invasion of the Gulf emirate. Libya's erratic ruler, Muammar Qaddafi, deported thousands more in the 1990s, saying that since they had signed the Oslo peace accords with Israel, Palestinians should “go home”. Since the invasion of Iraq in 2003, nearly all its 20,000 Palestinians have been forced to the borders, where some still languish in dusty desert camps.

One nation, divisible

It is a testimony to the tenacity of Palestinians that they have kept alive a sense of nationhood in the face of so much adversity. Yet the obstacles to sustaining their cohesiveness as a people are today greater than ever.

Around 5m Palestinians live in historic Palestine, under Israeli control. In the West Bank, Israeli settlements and military zones take up 40% of the land. In response to the second Palestinian *intifada*, or uprising, that began in 2000, Israel laced the territory with walls, fences and checkpoints that box its 2.5m Palestinian residents into dozens of largely separate enclaves. Since the Islamist party, Hamas, took control of Gaza last June, its 1.5m people have been confined within the strip's 146 square miles (378 sq km), kept alive on a drip-feed sustenance of international aid.

The 1.1m Palestinians inside Israel are far better off, though they have long suffered legal and economic discrimination. They are increasingly isolated from their brethren. Israel bars them, as its citizens, from travelling to Gaza or to most Arab countries, and their cousins in the occupied territories are unable to visit them since Israel, to keep suicide bombers out, has cancelled most permits.

Right-wing Jewish Israeli politicians stir up rhetoric about Palestinian Israelis as “fifth columnists”. Small wonder that in a recent poll 62% of them expressed the fear that Israel would one day expel them. The 250,000 Palestinian residents of East Jerusalem, which Israel annexed in 1967, have Israeli residence permits. But if they move to the West Bank or travel abroad to work, they risk losing for ever their right to live in the city of their birth.

Outside historic Palestine the picture is mixed. Most Palestinians in Jordan enjoy Jordanian citizenship and hence relative freedom, though their voting power is diluted by blatant gerrymandering in favour of “East Bankers”, the original Jordanians. Lebanon, Syria and Egypt grant Palestinians not passports but a *laissez-passer* that immigration officers tend to regard with suspicion. That aside, Syria, with its pan-Arab Baathist ideology, gives its 450,000 Palestinians almost all the rights of citizens except the right to vote, which is not much use in a dictatorship anyhow.

By contrast, Lebanon, out of fears that naturalising the country's 350,000 Palestinians, most of them Sunni Muslims, would tip the delicate sectarian power balance, denies them the right to own property or

to work in dozens of white-collar professions. Even if they are third-generation refugees in Lebanon, they risk losing their right to re-entry if they stay abroad longer than six months.

Egypt, home to just 70,000 Palestinians, is slightly kinder. Palestinians may travel for up to a year, if they get special permits. But Egyptian authorities are notoriously pernickety. Lana Baydas, a British-educated professor at the American University in Cairo, has waited 18 months for residency papers, during which time she has had to fly 18 times to Syria, the only country she can travel freely to on her Syrian-Palestinian *laissez-passer*, so as not to outstay her month-long Egyptian "tourist" visas. When she tried to explain the bother to a friend, she says ruefully, the reply was, "Can't you just stop being Palestinian?"

Ironically, it is Palestinians in the farther *shattat* or diaspora, beyond the Arab world, who feel the most secure. Antonio Saca, the president of El Salvador, is one of the 100,000 Salvadoreans of Palestinian origin, most of them Bethlehemites who left to escape the collapsing Ottoman empire almost a century ago. There are at least 300,000 Palestinian-Chileans, composed of various waves of emigration. America has maybe a quarter of a million Palestinians, mostly middle-class professionals, and there is a similar-sized but more recent émigré population in Europe, where it has been easier for new exiles to find refuge.

Distance and borders are not the only things that divide Palestinians. There are also stark, and growing, gaps between rich and poor, between secularists, Muslims and Christians, between myriad political factions—and between refugees, non-refugees and ex-refugees.

You are where you come from

The UN Relief and Works Agency (UNRWA) is responsible for the welfare of the 4.5m registered Palestinian refugees in the Middle East. Around half of the Palestinians in the occupied territories, including most of the people in Gaza, are refugees; about a quarter of Palestinian Israelis also lost their original homes. Living conditions vary enormously. In the West Bank, only about a third of the refugees live in camps, and even there UNRWA tents have long since been replaced by tightly packed slum housing.

Refugees are fiercely proud of their status, with even the rich and successful clinging to their identity. They may buy large villas, but often next to the camps. The 20,000 inhabitants of Balata camp, at the edge of the northern West Bank city of Nablus, still speak with the accent of villages in what is now Israel, even if they are second- or third-generation camp-dwellers. When UNRWA offered to buy land to house refugees outside Jenin's refugee camp after parts of it were flattened by Israeli bulldozers, the residents refused. Similarly, Nahr al-Bared's homeless residents are lobbying to ensure that when their camp is rebuilt, it will still be sectioned into districts named for the Galilee villages the original refugees came from.

In Jordan's capital, Amman, the rich and often secular Palestinians who live on the hilltops shun the religiously conservative poor whose houses pack the slopes and valleys. West Bank city-dwellers still shudder at the memory of an influx of job-seeking Gazans during the 1990s, before Israel severed links between the territories. The traditionally more affluent Palestinian Christians have been the likeliest to emigrate, becoming an ever smaller minority, and sometimes a persecuted one as militant Islamism has grown in strength.

An Israeli prime minister, Golda Meir, famously jibed in 1968 that "there is no such thing as the Palestinian people." Respectable historians now accept that Palestinian nationhood began to form in the 19th century. But at the time of the *nakba* their sense of nationhood was still more tenuous than that of the Jews two millennia ago, who went into exile with a dense religious tradition and centuries of biblical self-rule already under their belts. The world's diverse Palestinian communities are tied together less by history than by the narrative of dispossession and the dream of returning home.

For all his failings, Yasser Arafat, who headed the PLO and its dominant faction, the secular Fatah party, from 1969 until his death in 2004, can be credited with maintaining and strengthening the Palestinians' fragile identity. And he did so while engineering the shift in their aspirations that made peace with Israel a conceptual possibility—a shift from hankering after all-too-tangible lost land to the much more abstract promise of a nation-state, on a much smaller bit of that land.

But in 1993 Mr Arafat made what most Palestinians now regard as the error of agreeing to the Oslo

peace accords, which gave no firm promise of a Palestinian state in return for the recognition of Israel, and which eventually collapsed after the failure of talks at Camp David in the summer of 2000. Many conflict-weary Palestinians would have been satisfied with simply having a passport and a secure place to call home. But to the poorer refugees, Oslo smelt of a sell-out. As Jewish settlement in the West Bank accelerated, the newly installed Palestinian Authority grew more corrupt and negotiations collapsed into bloodshed, ever more Palestinians rejected Arafat's brand of nationalism and turned to Hamas.

Hamas's strengths

The credo of Hamas, born in 1987 as an offshoot of Egypt's Muslim Brotherhood, is the recuperation of all of historic Palestine for Islam, though over the years it has come to accept the idea of a "long-term" (several decades, say its leaders) truce with Israel. Hamas built its credibility through social programmes, a reputation for honesty and its rejection of a peace process that it saw biased in Israel's favour.

AP

But when will this lovely land really be his state?

Many of the Palestinians who voted Hamas into power in the 2006 parliamentary elections did so not because they agreed with its ideology but just because Fatah was so awful. Fatah's subsequent, American-backed effort to destabilise the new government only added to Hamas's lustre, and prompted the Islamists to undertake what they regard, with some justification, as a pre-emptive coup in Gaza last summer. Israel's attempts to suppress Hamas have backfired. The result of its blockade on Gaza is that an opinion poll in February showed the Hamas leader in Gaza, Ismail Haniyeh, beating the Fatah chairman, Mahmoud Abbas, for the presidency for the first time ever.

Palestinian deaths since the start of the second *intifada* stand at over 4,700 and rising, while hundreds of thousands have been impoverished, further hardening attitudes towards Israel. The latest peace talks, launched at Annapolis last November, have changed little on the ground. A growing number of Palestinians seem persuaded that Israel has so entrenched itself in the West Bank that a two-state solution is already out of reach. Around a quarter now say they favour a binational state with equal rights for all—which most Jewish Israelis would never accept.

This too is to Hamas's advantage. Its political opponents base their position on secularism and the two-state idea—and both values are eroding. Rumblings of dissent have emerged from within Fatah too, placing pressure on Mr Abbas to toughen his negotiating stance. "If Abu Mazen [Mr Abbas] agrees to anything without the right of return for all refugees, then there will be an *intifada* of the refugees," says Shami Shami, a Fatah member of parliament from the Jenin refugee camp.

Talk of the "right of return" sets alarms ringing in Israel: if all the refugees returned, Israel would be swamped and Jews would no longer be a majority. In practice, Mr Shami, like most politicians in Fatah, subscribes to a known formula: the conflict must be resolved along the lines of UN General Assembly Resolution 194 of 1948, which states that "the refugees wishing to return to their homes and live at peace with their neighbours should be permitted to do so at the earliest practicable date," and decrees that compensation should be paid to the rest.

The biggest poll on how many refugees would actually choose to return was done in 2003 by Khalil Shikaki, a leading Palestinian pollster. He asked refugees in the West Bank, Gaza, Jordan and Lebanon if,

given the choice, they would go to Israel, go to (or stay in) a Palestinian state, or take citizenship elsewhere. Those who did not go to Israel would get compensation.

Overall, 10% said they would want to move to Israel (it was 23% in Lebanon and 5% in Jordan, reflecting the differing conditions of refugees there). Some challenge Mr Shikaki's findings, partly because he added the stipulation that return would be limited to a quota agreed to by Israel, which would undoubtedly be minuscule: informal figures of 10,000 a year have been bandied about, half the current rate of Jewish immigration. More might opt for return if they felt there was a reasonable chance of getting it.

Even so, the poll suggests that for most Palestinians recognition of their legal “right” is more important than physical “return”. Full return is unrealistic, agrees Abbas Shiblak, who founded SHAML, a refugee research centre in Ramallah. “But we can't renounce the right of return because it means we accept the Israeli narrative and version of history, which no one will accept.”

Not that compensation for the rest would be a minor obstacle. The Aix Group, an Israeli-Palestinian-French economic study team, estimates that a fair package of resettlement or rehabilitation for the 4.5m registered refugees would run to between $55 billion and $85 billion. Given the tangled mess of responsibilities, foreign countries would be expected to stump up.

At present, though, even a decent settlement over the land, let alone the refugees, looks a very long way away. Mr Abbas, presiding over only part of the putative Palestinian state—and that precariously—is in no position to take the steps that Israel demands of him to implement a peace deal. Ehud Olmert, Israel's prime minister, cannot concede an inch without incurring the wrath of rightists. The two sides are currently negotiating what the Israelis have already downgraded to a “framework agreement” rather than a full peace deal discussed at Annapolis. The prognosis is poor. But if, against all expectation, they should agree on, say, the exact amount of land that Israel is prepared to relinquish in the West Bank and Gaza, even without specifying the shape of the border, it could make this sad 60th anniversary of the *nakba* almost celebratory.

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Presidential politics

The big remaining question

May 8th 2008 | INDIANAPOLIS AND RALEIGH
From The Economist print edition

Getty Images

He is closer to the Democratic nomination. But how will Barack Obama's colour affect his chances in November?

THE day before the Indiana primary, Hillary Clinton spoke in a fire station. Behind her was a fire engine. On it stood beefy firemen, framed by the Stars and Stripes. The crowd was thus reminded that Mrs Clinton is tough but caring. She did not quite promise to pluck each voter from a burning building, but she left the distinct impression that she might.

Mrs Clinton is pummelling home the message that she is a fighter who never gives up. She says so endlessly and offers subtle visual cues, such as the chap in boxing gloves standing behind her during her "celebration" speech on polling night. But even the most dogged fighters are sometimes outclassed. Barack Obama flattened her by 56% to 42% in the North Carolina primary on May 6th, and held her to a narrow two-point victory in Indiana, a state that she should have won easily. Mrs Clinton has not quite been knocked out, but she is kneeling on the canvas and groping for her mouth-guard.

Mr Obama now leads the race for the Democratic nomination by some 150 delegates. The last six contests will yield only 217 more. Since these will be allocated proportionally, Mrs Clinton cannot plausibly catch him. To win, she needs to do two things.

First she must persuade the Democratic Party to reinstate delegates from Florida and Michigan, states which were disqualified for holding their primaries too early. That is unlikely. Second, she must persuade a fat majority of unelected superdelegates to overturn the will of Democratic primary voters. Unless some gargantuan scandal suddenly engulfs Mr Obama, which seems improbable, they cannot do this without enraging most rank-and-file Democrats and nearly all blacks. That would be foolish, to put it mildly.

Pressure is mounting on Mrs Clinton to pull out. She has little money left and even less hope of victory. She could doubtless win West Virginia next week and Kentucky the week after. Both states are full of downscale whites, who typically favour her over Mr Obama. But what then?

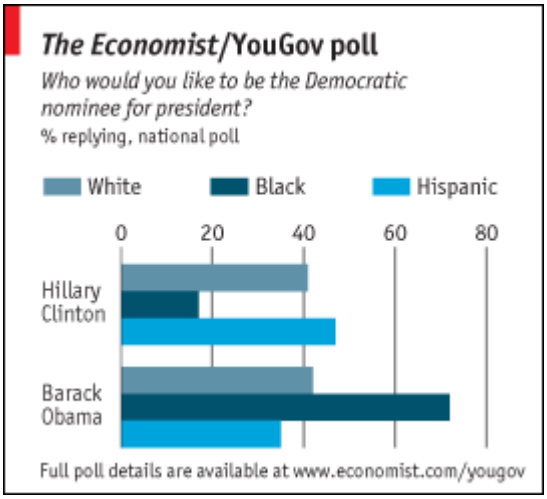
The undecided superdelegates could end the race now, if enough of them decide to throw their weight behind Mr Obama. Some of these party bigwigs are genuinely unsure which candidate they prefer. Some are waiting to hear what voters in their home state think. Some want to make sure they back the winner. Both camps are frantically courting them.

The Clintonites remain outwardly resolute. In a conference call with reporters on May 7th, Mrs Clinton's aides said they were happy with her win in Indiana. They insisted that there has been no discussion of quitting. Mrs Clinton has lent her campaign $6.4m in the past month, and is now dipping into the hefty

pool of assets she holds jointly with her husband. Her aides no longer talk about winning the popular vote; instead they are banking on the race still being “very close” after the final primaries on June 3rd.

If Mrs Clinton soldiers on, many Democrats are hoping that she will soften her attacks on the party's likely nominee. Who knows? He might even pick her as his running-mate. Meanwhile, Mr Obama has plenty of other things to worry about.

He is on the verge of proving that a black man can win the Democratic nomination. But winning the presidency is a different matter. The national electorate is whiter and more conservative than the Democratic one. And there is no precedent for what Mr Obama is attempting: no major party has ever offered voters a black presidential nominee. So it is anyone's guess what might happen. But one thing is sure: race will matter.



Mr Obama presents himself as admirably post-racial. Many voters see him that way, but some do not. Some 90% of blacks voted for him in Indiana and North Carolina. His margin of victory among blacks has increased from about 60 points in the early primaries to more than 80 in later ones, notes Jay Cost of RealClearPolitics.com, a political website. This colossal gap can hardly be attributed to the policy differences between the two candidates, which are small.

In Indiana this week, 29% of blacks told exit pollsters that the candidate's race was important to them. The true figure may be even higher, however. “It matters. He gives our children hope. He's a role model,” said Estelle Brantley, a black teacher, as she waited for Mr Obama to appear in Indianapolis. She and her friends then burst into a chorus of “Give the people what they want”, an uplifting song by the O'Jays.

Among whites the picture is more complex. In North Carolina 12% of whites said the candidate' s race mattered to them. Strikingly, of these, fully a third backed Mr Obama. As in other states, older white Democrats strongly preferred Mrs Clinton while younger ones plumped for Mr Obama. That augurs well for the future—the younger generation clearly have no insurmountable prejudice against a black candidate, and will doubtless teach their children, too, to be tolerant. This is a longstanding trend. In 1937 the notion of a black president was so far-fetched that Gallup did not ask people how they felt about it. By the mid-1960s a slim majority of Americans said they might vote for one. Last year only 5% admitted that they would never vote for a black.

People sometimes lie to pollsters, however. And even those who would not rule out voting for a black may have reservations. In Wake Forest, North Carolina, Steve Rehmar, a struggling white businessman, says that either Mrs Clinton or John McCain could govern, but that Mr Obama scares him. Mr Rehmar says he found pictures on the internet of Mr Obama failing to put his hand over his heart during the pledge of allegiance. He also mentions Jeremiah Wright, Mr Obama's former pastor.

It is doubtless unfair to judge Mr Obama by the company he keeps. Like any politician, he has to snuggle up to all sorts. But since Mr Obama has such a short record in public life, voters have little to go on but their perception of his personality. And that is inevitably influenced by footage of his spiritual mentor hollering damnation on America and speculating that the government is trying to wipe out blacks with AIDS. Rev Wright reminds many whites of everything they find alarming about black America. Mr Obama is plainly neither unpatriotic nor a conspiracy theorist, and has denounced his former pastor's outbursts vigorously. But some voters remain unconvinced.

To beat Mr McCain in November, Mr Obama must persuade Americans that youth and intelligence trump age and experience. He must convince them that Mr McCain represents a third term for George Bush. And he must persuade wavering whites that he is genuinely post-racial.

This will not be easy, because in many ways black and white Americans see the world differently. (So, for that matter, do Asians and Hispanics.) To take one example: most blacks favour racial preferences for minorities in such things as university admissions. Most whites do not. Mr Obama artfully fudges the issue. He concedes that his own daughters probably should not qualify, and hints that perhaps universities should look more at economic disadvantage and less at race. But he does not commit himself

to changing anything.

The key to Mr Obama's cross-racial appeal is not what he will do but who he is. Recently he has referred often to his white grandfather, who fought in the second world war, and to his white mother, who for a while scraped by on food stamps. And during his televised speeches, he makes sure to put white ladies of a certain age where the camera can see them. His visual message, which he could never articulate so bluntly, is that although he is black, he is not threatening.

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On the campaign trail

Primary colour

May 8th 2008
From The Economist print edition

Bad omens
"She ran a whale of a race. She ran the race of her life."
Larry Jones, trainer of Eight Belles, the only filly running in last weekend's Kentucky Derby and Hillary Clinton's choice. The horse finished second but broke both front ankles and was put down. Louisville Courier-Journal, *May 4th*

Hot stuff
"At my age, I didn't think I could make anybody faint any more."
Bill Clinton can still overexcite a crowd in North Carolina. CNN.com, May 4th

We're taking this personally
"I'm not going to put my lot in with economists."
Mrs Clinton rejects criticism of her petrol-tax holiday plan. "This Week", ABC, May 4th

Follow your gut (1)
"I also very much look forward to going back to the Iowa State Fair and having a pork chop on a stick, followed by a deep-fried Twinkie!"
John McCain continues to campaign in Iowa. CNN.com, May 2nd

Follow your gut (2)
"I've been losing weight on the campaign trail."
Barack Obama goes for the sympathy vote. FoxNews.com, May 5th

Balls
"If she gave him one of her *cojones*, they'd both have two."
James Carville suggests Mrs Clinton is more of a man than Mr Obama. Newsweek, *May 2nd*

Illustration by Claudio Munoz

Wishful thinking
"That's probably John McCain calling to ask me to be on the ticket."
Mike Huckabee hears his phone ringing as he campaigns in Mississippi for Republican congressional candidates. Politico.com, May 5th

Chewing Guam
"We're not going to win the White House by winning Guam."
Mike Easley dismisses Mr Obama's caucus win. CNN, May 4th

Elitists unite
"Beer-drinkers' votes and wine-drinkers' votes count exactly the same."
Brad Miller, a Democratic congressman from North Carolina and undecided superdelegate, defends elitists. Newsweek, May 12th

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Education

Red ties and boys' pride

May 8th 2008 | CHICAGO
From The Economist print edition

Sowing the seeds of good schools in the Midwest

Correction to this article

EVERY weekday, 300 boys gather in a gym on Chicago's South Side. They are all black. More than 80% are poor. Over the past few weeks Chicago has seen a surge in gang violence. But here boys stand in straight lines. Each wears a blazer and a red tie. And in unison they begin to shout their creed: “We believe. We are the young men of Urban Prep. We are college-bound.”

Urban Prep Charter Academy opened in 2006, part of an effort to bring 100 new schools to Chicago's bleakest areas by 2010. Richard Daley, the city's mayor, announced Renaissance 2010 (“Ren 10”) in 2004; Chicago's business leaders created the Renaissance Schools Fund (RSF) to help support it. Backers of this ambitious scheme hope it will spur competition across the school district. On May 6th RSF held a conference to discuss the “new market of public education”.

At the core of Ren 10 is the desire to welcome “education entrepreneurs”, as RSF calls them. Ren 10 lets them start schools and run them mostly as they choose (for example, with longer days and, in some cases, their own salary structure); it also sets the standards they must meet. Schools receive money on a per pupil basis, and may raise private funds as well.

Chicago is not the only city to pair autonomy with accountability. New York's school chief, for example, wants to “charterise” the whole city system (see article). In Chicago, Ren 10 is opening charter schools and trying to bring their flexibility to two new models: “performance” schools, where teachers are unionised, and “contract” schools, which may hire non-union teachers but must still abide by some district rules.

The first step is to identify the seeds of a good school. Leaders in Chicago's Office of New Schools (ONS) and in RSF recommend Ren 10's method for doing so, which includes reviews by local parents, educators and national experts. Ren 10 offers many kinds of schools (ONS even hopes to open boarding schools), but good ones share common traits. The most important, argues Josh Edelman, the head of ONS, are strong leaders, neighbourhood outreach and a rigorous curriculum based on a clear mission. Urban Prep is structured around the goal of helping local boys, admitted by lottery, to get to college. (It is Chicago's first and only public charter school just for boys; there is another just for girls, and ONS would like to open more single-sex schools.) Longer school days give teachers more time to help boys catch up. Being a pupil is each boy's “job”.

RSF chooses schools that seem most likely to succeed, then gives them up to $500,000 over 30 months. So far the group has raised $44m. Increasingly, RSF looks for those with sound management and plans to use data to improve performance. (Urban Prep tests students every six weeks.) After five years ONS will assess each new school to judge whether to renew its contract.

So far 55 schools have opened: 32 charter campuses, 19 performance schools and four contract schools. As Ren 10 moves towards its goal of 100 (and perhaps beyond), it will be a continuing challenge to replicate good schools and open new ones. Chicago has reached its legal limit on the number of new charters it may award. The Illinois Senate has passed a bill to raise the cap, but the teachers' union may try to block the measure.

The future of performance and contract schools, meanwhile, is unclear. Not only do these models face the threat of litigation (unlike charter schools, they are not protected by state law), but they must grapple with district and union rules. For example, a performance school that wants to extend the school day must wade through union procedures to do so.

Though the older charter schools have made gains, it is too soon to judge Ren 10's success. Its high schools had a 93% attendance rate in their first year, compared with 86% in high schools across the district, but there are no broad data exist about drop-outs or teenagers' performance on tests. Equally unclear is whether Ren 10 will drive broader change. Rosemaria Genova, speaking for the teachers' union, says that Ren 10 is creating a “two-tiered system” within the district, and scoffs at its attempts to “apply business models to students.” But a market is being built, and Ren 10 is stirring up demand. Urban Prep has 150 pupils in each grade. Some 600 have already entered the lottery for next year's beginner-class.

Ironically, growing demand may make it harder for schools to serve their intended market. Ren 10 parents are already engaged in their children's education—they shop for schools and submit lottery applications. As a school becomes well known, it may lure parents who are even more ambitious and, perhaps, slightly better off. In 2007 83% of Urban Prep's freshmen were poor, compared with 87% in 2006. Eleven percent of new students began school reading at or above grade level, compared with only 4% the year before.

Kim Davis-Ambrose, whose son attends a Ren 10 charter school, may help to stem this trend. Her group, launched by RSF, visits local neighbourhoods to teach parents about new schools and how to send their children there. When it comes to schools, she says, all parents should know that they now have a choice.

Correction: we stated incorrectly that a performance school, due to open in September, had won a waiver from the teachers' union to extend the school day. In fact the school intends to extend the school day, but has not yet won the waiver. This was corrected on May 9th 2008.

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New York schools

Six books a week

May 8th 2008 | NEW YORK
From The Economist print edition

Harlem parents are voting for charter schools with their feet

THOSE who had won whooped with joy and punched their fists. The disappointed shed tears. Some 5,000 people attended April 17th's Harlem Success Academy Charter School lottery, the largest ever held for charter schools in the history of New York state. About 3,600 applied for 600 available places, and 900 applied for the 11 open slots in the second grade.

The desperation of these parents is hardly surprising. In one Harlem school district, not one public elementary school has more than 55% of its pupils reading at the level expected for their grade. And 75% of 14-year-olds are unable to read at their grade level. So Harlem parents are beginning to leave the public school system in crowds.

If a charter school gets more applications than it has space for, a lottery must be held. Hence April's event. Joel Klein, the chancellor of New York City's schools, attended, describing it as a “transformative night” that would “go down in the history of school reform”. Mr Klein said he thought Harlem's public schools were getting better, but noted that a little competition helps everyone run faster. Last November he announced a plan which, in effect, would “charterise” the entire New York City school system, which has 1.1m children.

Harlem now has the most charter schools per square mile in the United States, yet demand still exceeds supply. Harlem Success is opening three new schools this summer. About 40% of all eligible children in central Harlem applied for kindergarten at Harlem Success schools. The reason is obvious. Tests taken at the beginning of the 2006-07 school year at Harlem Success showed only 11% of six-year-olds were at their grade level in mathematics. By the end of the year, 86% were. This may have something to do with grouping children by ability rather than by age, and with involving parents, who have to read six books a week to their children.

Unfortunately, many local politicians oppose charter schools. They have tried to cap their numbers, or refused to let them share buildings with public schools. The legislature in Albany has mandated that if a charter school has more than 250 students before its third year of existence, the teachers must unionise. That spoils everything.

David Paterson, New York's new governor, once opposed charter schools. But he spoke enthusiastically about them at the lottery. A good education for all children, he said, was the most important thing. If charters can provide it even in Harlem, so much the better.

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The booming West

Grave goods

May 8th 2008 | KANAB, UTAH
From The Economist print edition

How to reconcile archaeology with suburban growth

DOUG MCFADDEN, an archaeologist, walks through the site of a future suburb picking up shards of pottery more than a thousand years old. The 280-acre field in south-west Utah is littered with Indian artefacts. Last year a trench was dug through part of the site that was not expected to contain many remains. It revealed a grave, pit houses and part of a building.

Southern Utah is one of the archaeologically richest parts of America. The Anasazi Indians who lived there until the 14th century left pottery, the remains of houses and thousands of mysterious images painted on or chipped into rock, much of it fortunately preserved by the region's parched climate. Less fortunately, the Anasazi tended to settle in areas that have plenty of water—just the sort of spots where developers like to build pseudo-Tuscan villas.

And they do, here more than almost anywhere else. The population of St George, the biggest town in south-west Utah, swelled from 90,000 to 126,000 between 2000 and 2006—a growth rate of 16 people a day. Kanab, 90 minutes' drive to the east, seems poised for a similar explosion. It lies near spectacular Zion Canyon, luring retired folk who know the area from their holidays. And the high birth rate in a heavily Mormon area means houses are always in demand, even now.

Under Utah law developers are under no obligation to preserve, or even reveal the existence of, archaeological remains. Work is supposed to stop if human remains are discovered, but only for a few days. Even this modest law may be widely flouted. Kevin Jones, the state archaeologist, says many developers believe the discovery of bones will lead to the state or an Indian tribe seizing private land. Fearing that, some will probably order the bulldozers quietly to bury what they unearth.

Yet this is beginning to change. Milo McCowan, who owns the 280-acre plot near Kanab, plans to preserve virtually all the archaeological remains he finds. Houses will skirt the richest sites, where digs will continue for decades. Aside from the inherent interest of the remains, this is a handy way of making the development different from thousands of similar ones in the West. In a fast-growing area where many buyers lack roots, a bit of local history may help sales.

Others are coming to the same conclusion. Bloomington, a suburb of St George, has built a cul-de-sac around a huge boulder marked with petroglyphs—a model that will soon be followed by a developer near Salt Lake City. A site near Cortez, in Colorado, which is dotted with more than 200 Indian ruins, is being marketed as “America's first archaeological development”: buyers can do their own excavations, but must bequeath what they find to a local museum. Perhaps the most extraordinary example is Mountain's Edge, a half-built suburb near Las Vegas, where an ersatz archaeological dig has been incorporated into a

park. Clearly, if a site lacks history there is a need to invent it.

Troy Scotter, who researches rock art in Utah, has some reservations about the vogue for archaeology-themed suburbs. It would be best, he says, if Anasazi sites were left alone. Yet he reckons it is almost impossible to keep them secret and safe from vandals in an era of digital cameras, global-positioning systems and the internet. The best chance of preserving America's archaeological heritage may be to surround it with houses.

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Lexington

Land of the free?

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Illustration by Kevin Kallaugher

Liberty in America is not quite as revered as its leaders pretend

NO OTHER country puts as much emphasis on “freedom” as the United States. Patrick Henry demanded “liberty or death”. The national anthem calls America “the land of the free”. Great reformers from Abraham Lincoln to Martin Luther King have urged America to live up to its ideal of “freedom”. When a group of French Americanophiles wanted to flatter the United States, they sent the Statue of Liberty.

And no other country boasts as much about its mission to give freedom to the rest of the world. Woodrow Wilson thought that he had a God-given duty to bring liberty to mankind. George Bush regards his foreign policy as a crusade for freedom—“the right and hope of all humanity”.

But how good is America at living up to its own ideals? A new study by Freedom House tries to answer this question. The fact that Freedom House has devoted so much attention to the United States is significant in its own right. Founded in 1941 by a group of Americans who were worried about the advance of fascism, Freedom House is now the world's leading watchdog of liberty. The fact that “Today's American: How Free?” is such a thorough piece of work makes it doubly significant.

The judicious tone of “How Free?” will undoubtedly disappoint leftists. Freedom House bends over backwards to give the authorities the benefit of the doubt. Other countries have recalibrated the balance between freedom and security in the face of terrorists who want to inflict mass casualties on civilians. America's recent sins, however, are minor compared with those of its past. Newspapers have published highly sensitive information without reprisals. Congress and the courts have repeatedly stepped in to restore a more desirable constitutional balance.

But the verdict on the Bush years is nevertheless sharp. “How Free?” not only details and condemns the administration's familiar sins, from Guantánamo to extraordinary rendition to warrantless wiretapping. It reminds readers of its aversion to open government. The number of documents classified as secret has jumped from 8.7m in 2001 to 14.2m in 2005—a 60% increase over three years. Decade-old information has been reclassified. Researchers report that it is much more difficult and time-consuming to obtain information under the Freedom of Information Act.

Government whistleblowers have repeatedly been punished or fired—even when they have been trying to expose threats to national security that their bosses preferred to overlook. Richard Levernier had his security clearance revoked for revealing that some of the country's nuclear facilities were not properly secured. Border security agents have been punished for pointing out that the border is inadequately

monitored, and airport baggage-handlers and security people for pointing to weaknesses in the security system. The Office of Special Counsel, which was established to enforce laws designed to protect the rights of such people, is widely regarded as “inept and even hostile to whistleblowers”.

“How Free?” also has some hard things to say about America's criminal-justice system. The incarceration rate exploded from 1.39 per 1,000 in 1980 to 7.5 in 2006, driven, among other things, by the war on drugs. America now has one of the highest rates of imprisonment in the world: 5.6m Americans, or one in every 37 adults, has spent time behind bars. Even though prison-building is one of the country's great growth industries, overcrowding is endemic, with federal prisons operating at 131% of capacity. America is also one of the few countries to ban felons and, in some states, ex-felons from voting. At any one time 4m Americans—one in every 50 adults—is disenfranchised because of past criminal convictions. This includes 1.4m blacks, or 14% of the black male population.

Freedom House's strictures are, if anything, too soft. America insists on criminalising victimless crimes such as prostitution. Last week Deborah Jeane Palfrey, the so-called DC Madam, committed suicide; the government had thrown the book at her, including racketeering and mail fraud, because it really wished to penalise the arranging of assignations between consenting adults. In her suicide note to her mother she wrote that she could not “live the next six-to-eight years behind bars for what you and I have both come to regard as this 'modern-day lynching'.”

The wrong lemonade

The American legal system also seems to have lost any sense of proportion. Christopher Ratte, a professor of archaeology, recently tried to buy his seven-year-old son a bottle of lemonade at a baseball game. He was handed a bottle of Mike's Hard Lemonade, an alcoholic drink, by mistake. Officials noticed the boy sipping the drink and immediately whisked him off to hospital. He was fine. But the family was condemned to legal hell: the police at first put the seven-year-old into a foster home and a judge ruled that he could go home only if his father moved out. It took several days of legal wrangling to reunite the family.

“How Free?” repeatedly argues, even as it dredges through the most depressing material, that the American system has proved admirably self-correcting. The response of civil-liberties advocates has been swift and dogged. The Supreme Court has forced the administration to extend the Geneva conventions to inmates in Guantánamo and other military prisons. Congress has reined in warrantless wiretapping. The press has repeatedly published leaked material.

This is perhaps a little optimistic—the courts have been slow and Congress half-hearted. But nevertheless the self-correction is now entering a higher gear. All the current presidential candidates, Democratic and Republican alike, have condemned torture and rendition and declared their desire to close Guantánamo. Freedom House's new publication will be an important contribution to this process of self-correction.

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Peru

Poverty amid progress

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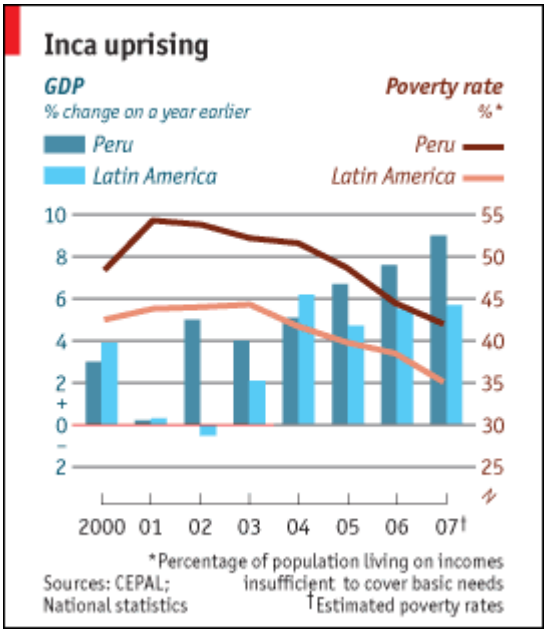
From The Economist print edition

A revolution in South America's fastest-growing economy is not reaching everyone

Corbis

BLOCKS of flats or offices are under construction on nearly every street. New hotels and restaurants sprout on every corner, while shopping centres multiply in what were once shantytowns. Across the city, thoroughfares have been torn up to make way for new bus lanes and terminals. Such is the anarchic volume of traffic that just crossing the street has become a time-consuming and perilous exercise. Lima, Peru's capital of 8m people, is shedding its former air of provincial lassitude and turning into a bustling metropolis.

The city is the visible face of a boom that has made Peru South America's fastest-growing economy (see chart). That performance owes much to record prices for mineral exports. But newer export products, from designer cotton T-shirts to mangoes and artichokes, are also flourishing. As well as trade, private investment, growing at 20% a year, and domestic consumption are driving the economy forward at an accelerating pace (in the year to February, GDP grew by 9.2%).



Thanks to high world prices for food and fuel, inflation has spiked to 5.5%, having been low for years. Nevertheless, the growth looks to be built on solid foundations. The national savings rate has risen to 24% of GDP, high by regional standards, and the government last year posted a fiscal surplus of 3% of GDP. A free-trade agreement with the United States is about to come into effect. In recognition of such achievements, Peru's debt was awarded an investment-grade credit rating last month by Fitch, a ratings agency.

Yet there are paradoxes at the heart of the boom. Despite the growth, poverty has fallen only slowly. And many Peruvians are disgruntled. The president, Alan García, was once a radical populist who presided over hyperinflation and debt default in a first term in office in the 1980s. He returned to office in 2006 a reformed character. But his people give him little credit for the strong economy. He is one of the least popular presidents in Latin America, with an approval rating of just 26% in a poll taken in the main cities in April by Ipsos-Apoyo, a pollster.

There are several reasons for the relatively slow fall in poverty. Although the number of formal-sector jobs is expanding at 9% a year, many Peruvians still labour in the informal sector of unregistered businesses, where productivity is low. Wages for the unskilled have been slow to rise.

A bigger reason is geography. The capital, the Pacific coastal strip and most of the north of the country are all thriving. The problem is the southern Andean region, where poverty reaches 70% of the population. Helped by tourism, mining and microcredit some Andean cities, such as Cajamarca, Cusco, Huaraz and Huancayo, are prospering. The big divorce is with the surrounding, often mountainous, countryside, where many Andean Indians remain trapped in subsistence farming on small plots. Whereas 60% of the labour force in Lima are waged workers, only 27% are in Apurímac, notes Efraín González, an economist at Lima's Catholic University.

These unwaged people are often more or less cut off from the market economy. And it is market connections that make economic growth “trickle down” to the poor, points out Richard Webb, a social researcher and former central-bank governor. Enabling that to happen is thus a job for public policy. Better roads, education and social policy are all needed.

At least in theory, Mr García's government recognises this. It has set an ambitious target of cutting poverty to 30% by the end of its term, in 2011. For the first time in three decades the state has money to invest—but it is finding it hard to do so.

With the help of the World Bank, the government has drawn up a new anti-poverty strategy which focuses on trying to end the malnutrition that affects 30% of Peruvian children, most of them in the southern Andes. It has ramped up social spending while trying to target it more closely on the poorest areas. But Ivan Hidalgo, the official in charge, accepts that a lack of good managers, especially in local governments, is hindering this effort. He does not add that, in a misguided gesture, Mr García slashed salaries for top public-sector jobs.

Similarly, money for public investment in roads or to help farmers lies unspent at all levels of government, partly because of fears of corruption. In another paradox, Peru has created “a culture of fiscal propriety” whose side-effect is that officials are ignoring a social emergency in the Andes, says Mr Webb.

Tackling this effectively means reforming the education and health ministries as well as local government. Mr García's government has made some effort to improve the performance of teachers, but has otherwise done little. “It's a government that insists on investment and not on reforms,” says Julio Cotler, a sociologist at Lima's Institute of Peruvian Studies.

Like his predecessor, Alejandro Toledo, Mr García is handicapped by his unpopularity and by his lack of a legislative majority. In the presidential election, the southern Andes voted heavily for Ollanta Humala, a populist former army officer. According to Ipsos-Apoyo, Mr Humala is today more popular than the president. “To be popular in Peru you need a populist discourse,” says Mr Cotler. “It doesn't get anyone

out of poverty but it soothes people's rancour and resentments.”

Nevertheless, the economic boom is going hand in hand with a deeper cultural change. In the 1970s and 1980s, Peru was a collectivist country: first a military government nationalised much of the economy and then Mr García, in his first term, took over a chunk more, egged on by a powerful left-wing opposition. Since then Peru has undergone a “capitalist revolution”, as Jaime de Althaus, a liberal journalist, argues in a recent book. This revolution is based not just on big mining companies, but on thousands of small-scale farmers on the coast, who broke up their state co-operatives into commercial plots, and on small businessmen in the shanty towns, who are exporting everything from clothes to electrical components.

When leftists complain the capitalism is “savage” they sometimes have a point: while some companies post record profits, many Peruvians work long hours for low wages with few labour rights. Away from Lima and the north coast, which have embraced globalisation, many Peruvians cling to nationalist and statist attitudes, says Alfredo Torres of Ipsos-Apoyo. Unless the politicians do a better job of defending the capitalist revolution and spreading its benefits, it will be threatened by the rancour of those who feel left out.

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The Dominican Republic

Two cheers for Fernández

May 8th 2008 | SANTO DOMINGO
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The president heads for a third term

AFP

MUCH of the coastline is lined by all-inclusive resorts that resemble oversized cruise ships that have sprouted roots and spread along the beach. Most of the 4m tourists who visit each year never leave their resorts, where they consume imported food and drink. Climb into the hills behind and rugged motorcycles share the streets with loaded donkeys. A sign advertising a “call centre” refers to a place where a few people can call family or friends, rather than a back-office providing customer service around the world. Annual tropical storms and mudslides wreak havoc with the few roads. Over a tenth of the population has left for the United States in recent years.

Despite these ups and downs, the Dominican Republic has moved forward over the past dozen years—for eight of them under Leonel Fernández, a lawyer who grew up in New York City. His first term in office, from 1996 to 2000, marked the arrival of democracy after the demise of Joaquín Balaguer, an elected strongman who ruled for much of the previous four decades. Mr Fernández appealed beyond traditional political parties, drawing respected independents into the government.

When he returned to power in 2004, after a costly and mishandled banking collapse, many hoped for a reprise. Sure enough, he stabilised the economy and restored vigorous growth. But the politics have been less inspiring. The government is stuffed with party men and has been dogged by corruption scandals.

Voters, with reason, seem to reckon that his opponents would be worse. Though Mr Fernández opposed a constitutional change overseen by his predecessor to allow two consecutive presidential terms, he may now benefit from it. He seems to be heading for victory in a presidential election on May 16th, though he may face a run-off ballot next month. His main rival, Miguel Vargas, was a minister in the government that bungled the bank bail-outs.

Like their neighbours in Haiti, poorer Dominicans are suffering from high world prices for food. Mr Fernández has responded with subsidies for wheat, milk, rice and chicken, paid directly to supermarkets. That may be politically effective, but opponents question how much it has cost—and have not received an answer. An agreement with the IMF conveniently expired in January, in time for a pre-election spending binge. In February Mr Fernández opened a new metro in Santo Domingo, the capital, although only two stations are working.

His government has made little progress in fixing the chronically deficient electricity system. More than a

third of the power is stolen. The state holding company for electricity generation (known as CDEEE) employs over 2,000 people to do the work of 20 or 30, according to an economist who studies the country. But Mr Fernández has stood by Radamés Segura, CDEEE's unreforming boss. The government guarantees a fixed price for electricity even though much of it comes from oil-fired power stations. Higher oil prices mean that the subsidy to the CDEEE is rising fast, and is likely to exceed $1 billion this year. Most of a separate subsidy that is ostensibly for cooking gas goes in practice to owners of cars that run on natural gas, according to Marino Inchaustegui, a former finance official.

On a campaign swing through La Vega, in the centre of the country, Mr Fernández, wearing a baseball cap as he sits atop a car, is feted like a famous ballplayer on his homecoming. Unmarked police cars use their sirens festively. He is still a cut above his opponents, and nobody has accused him of being personally corrupt. But a prominent writer who was once a supporter complains that the president is becoming like Balaguer. That may be the concomitant of political success, but if true it would nevertheless be a shame, for the man and for the country.

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Bolivia

Battle by referendum

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A tactical victory for the opposition

Reuters

Cheering for autonomy—from socialism

THEIR vote may have lacked legal force, but the thousands of opposition supporters celebrating the approval of an unofficial referendum on regional autonomy held in Santa Cruz, Bolivia's economic capital, on May 4th sensed a political triumph. With four-fifths of the votes counted, 86% backed the autonomy plan. As if to confirm their judgment, the national government of Evo Morales, the socialist president, felt obliged to take out full-page newspaper advertisements declaring the referendum a "resounding failure".

In theory, the voters approved a plan to set up an elected regional assembly that would assume many of the powers of the central government. In practice it was a warning to Mr Morales not to go ahead with a new constitution that in the opposition's view would enshrine "21st century socialism" and dilute the rule of law by giving equal status to customary justice imparted by Andean Indian *caciques*. The constitution's text was approved at an ad hoc session of a Constituent Assembly from which the opposition was excluded.

Mr Morales sees his foes as a racist elite clinging to privileges. Government officials busily picked holes in the referendum result, pointing out that since only 66% of voters turned out barely half the electorate backed autonomy. But apply the same logic to the presidential election of December 2005, and Mr Morales would have won 45% rather than 53%. And in some rural areas in Santa Cruz, mobs of government supporters prevented voting by burning ballot boxes.

Three other departments in Bolivia's more prosperous east are due to follow Santa Cruz in holding autonomy referendums in the next few weeks. The opposition hopes that all this will oblige the government to hold talks to amend the constitutional draft before it fixes a date for, yes, a referendum to approve it. "The conditions no longer exist for the government to impose its constitution and if it tried it wouldn't last more than a few days," says Oscar Ortiz, an opposition leader who heads Bolivia's senate.

César Navarro, the parliamentary leader of Mr Morales's Movement to Socialism, agrees that "adjustments" in the draft constitution are inevitable. But Mr Morales's more radical supporters disagree.

Bolivia remains deeply divided. But the opposition now reckons it has the initiative again.

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Ecuador's constitution

Going nowhere

May 8th 2008 | QUITO
From The Economist print edition

Another leftist bogs down

Get article background

PIONEERED by Venezuela's president, Hugo Chávez, it has become the customary route to “21st century socialism”: win an election, call a Constituent Assembly, get a new constitution approved by referendum and use it to place your supporters in all the organs of state.

That is the route embarked upon by Rafael Correa, Ecuador's newish young president. He faces less opposition than Bolivia's Evo Morales (see article). His popularity has been boosted by his vigorous protests over a Colombian bombing raid in March against a guerrilla camp just across the border. Since Mr Chávez's defeat in a constitutional referendum in December, Mr Correa has swapped talk of socialism for a “citizens' revolution”. But he is achieving little.

Mr Correa's Alianza País party, an eclectic far-left-to-centre coalition, enjoys a big majority in the assembly. It used this to dissolve the opposition-dominated Congress, and has proceeded to act as a legislature. Work on a constitution has also been slowed by rows about abortion, religion and gay rights. With no sign of a final text, the assembly plans to extend its mandate, from this month until July.

Mr Correa benefits from the opposition's discredit and high oil prices, which have allowed him to increase social spending. But the mercurial president's verbal flair cannot conceal the dismal state of the economy. Inflation has shot up to 8.2%. But despite the oil windfall, growth was only about 2% last year, the worst performance in Latin America. Officials say the rate will double this year, but do not say how.

Private investment has been scared away as Mr Correa has overturned contracts with foreign oil companies, revoked mining concessions and threatened telecoms companies. The government says that public investment will be the motor of growth. Opponents want more of the oil windfall to be saved. The government's unsustainable economic policy “will exacerbate rather than solve the country's problems, weakening support for democracy,” worries Jaime Carrera, who runs a private-sector think-tank.

As with Mr Morales in Bolivia, constitutional tinkering may prove to be no substitute for governing. Ecuador, South America's most dysfunctional polity, has averaged a new constitution every ten years since its founding in 1830. In that, at least, it has been a worldbeater.

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Cyclone in Myanmar

No shelter from the storm

May 8th 2008 | BANGKOK AND YANGON
From The Economist print edition

AFP

The Burmese junta demonstrates its callousness and incompetence, again, as a terrible disaster strikes

Get article background

WHEN the most terrible storm in living memory struck southern Myanmar on the night of May 2nd-3rd, the people under it probably did not know what hit them. Yet India's meteorological department had given the Burmese government 48 hours' notice of how severe Cyclone Nargis would be, and where it would strike land. The country's military dictators broadcast some warnings over state media. But they organised no evacuations or other measures to limit casualties as the tempest approached. Since then, their response to the emergency has been feeble.

The cyclone lifted a vast mass of sea-water and hurled it on low-lying villages on the delta, sweeping away tens of thousands of people. Further inland, winds of up to 120mph (192kph) flattened buildings and caused many more casualties. As *The Economist* went to press, the death toll looked likely to exceed 100,000. With a further 1m homeless and many more without fresh water, more deaths from disease and starvation seem inevitable.

There is utter devastation across the delta: entire villages washed away; rice paddies strewn with corpses; survivors sleeping rough. The few that escaped from destroyed coastal settlements now shelter with relatives a little further inland, at places such as Kungyangon. This small town near Yangon had buried 2,000 of its own dead by May 7th in whatever scraps of dry land could be found, often two or three bodies to a grave. Many others are missing, presumed dead. Salt water has poisoned the wells and ruined grain. Livestock are dead underneath the debris. There is no sanitation and already some people are suffering from diarrhoea.

Kungyangon is on a main road. Four days after the storm, a bunch of soldiers arrived, handed out meagre rations and then mostly just loafed by the roadside. Anger at the army, and at a rumour that the government had rejected foreign aid, had made locals forget their fear of speaking to foreigners. Asked if he was afraid of retribution, one man said, “what could be worse than this?” In Kungyangon, there was no rice in the shops. In Yangon, the main city, essential supplies could still be bought but prices had soared. Many people there were living without water or electricity, in homes without roofs—and there has been torrential rain every day. There were huge queues for fuel, and a minor crime wave, with some shops looted.

United Nations agencies and other humanitarian bodies are gearing up for a huge rescue operation. Two

countries that have close relations with the regime, India and Thailand—both criticised for cosying up to it so as to gain access to Myanmar's rich oil and gas resources—quickly began sending food, medicines and other supplies. Western countries recently tightened their sanctions against the Burmese government, but have unhesitatingly offered assistance, as have China and others.

However, the regime has been slow to grant visas to foreign aid workers and let supply planes land. It is paranoid about being overthrown by the Western powers and treats all offers of outside help with suspicion. The first of four planned UN flights on May 8th brought high-energy biscuits, medicine and other supplies and a four-strong UN team were granted visas. Shipments from Indonesia and Bangladesh are being allowed. But America said its planes had not yet received clearance. France suggested Western countries might force the junta to accept foreign intervention, under a UN principle that the "responsibility to protect" may sometimes override sovereignty concerns.

The disaster may have ill effects beyond Myanmar's borders. It may force UN agencies, their budgets already under strain from soaring food prices, to divert help from other needy places. Worse, the cyclone, which hit Myanmar's main rice-growing areas, may intensify the worldwide panic over rice supplies, which has already led to food riots in many countries (see article). Myanmar, once the world's biggest rice exporter, still produces a small surplus. The government had agreed to supply rice to Sri Lanka and Bangladesh but may now need to import it instead.

Despite the devastation and the desperate need to divert all the state's resources to rescuing the cyclone's victims, the junta insisted it would not postpone its referendum on a new constitution, scheduled for May 10th. It said voting would still be held as planned in those parts of the country unaffected by the cyclone. In the devastated south, it would be delayed by just 14 days. The constitution, scripted during a drawn-out and farcical process overseen by the army, will give its chiefs the power to continue intervening in politics at will, if and when there is a nominally civilian government. It also reserves 25% of parliamentary seats for army officers, giving them a veto over constitutional changes.

It is hard to see how a proper vote could be held amid such devastation. However, with many reports of people being coerced to vote "yes" and intimidated if they called for a "no" vote, it is clear that it never was going to be a proper vote anyway. In 1990, imagining themselves to be popular, the generals called an election. The National League for Democracy, led by Aung San Suu Kyi, won easily but the army ignored the result and carried on ruling.

Given a free choice the Burmese would almost certainly give a loud "no" to the proposed constitution, especially after the regime's bloody crackdown on Buddhist monks who led street protests last

September. However, this time, the army is expected to indulge in whatever amount of coercion and vote-fiddling is needed to produce a “yes” vote.

General Than Shwe, the army chief, and other junta leaders are said to believe their own propaganda about being the people's protectors and the guardians of the nation. Their feeble response to the cyclone has shown how hollow is this boast. The security forces, ever quick to the scene when protests are staged, were notable largely by their absence this week.

Some Myanmar-watchers think that the frustration of the Burmese people, already angry enough at their inept rulers, will now boil over. But then, over the years since the army took over in 1962, predictions that “people power” was about to sweep away the regime have repeatedly been shown to be wishful thinking. In a big uprising in 1988 and again in last year's protests, the army has shown it will not hesitate to shed as much blood as is necessary to deter any challenge. Starving, destitute and drenched in the tempest's wake, it is hard to see the Burmese summoning the strength to throw off the tyrants' rule.

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North Korea

Let them eat Juche

May 8th 2008 | TOKYO
From The Economist print edition

What the world's most repulsive regime has in store for its people

A DECADE after a famine killed 500,000-1m people in North Korea, recent news from the benighted country suggests it is once again on the brink of mass starvation. The state food distribution system seems to have broken down everywhere, including the capital, Pyongyang, which usually gets special treatment from Kim Jong Il's regime. In the absence of public distribution, North Koreans rely increasingly on informal or illegal markets for grain. There, a new paper by the Peterson Institute for International Economics (IIE) in Washington argues, recent extreme price rises appear consistent with the onset of famine (see chart).

Good Friends, a Buddhist human-rights group in South Korea, says that in rural areas families are again adding tree-bark and grass to their diet, and foraging for food in the wild. It says that in South Pyongan province in west-central North Korea, people are already dying of starvation, while listless farmers ignore officials' calls to plant this year's rice. Last month the World Food Programme (WFP) called for urgent help to avert a “serious tragedy”.

North Korea, admittedly, has a chronic food crisis. The 23m-odd population is large for the country's arable land, and the weather is often unfavourable: late-summer floods in 2006 and 2007 caused widespread damage. But North Korea's neighbours, China and South Korea, share similar features without going short of food. By contrast, North Korea is both international ward and pariah. Its reckless foreign policy hinges on nuclear blackmail, which deters foreign donors, and the regime frustrates efforts to ensure aid goes to those who most need it. It has suppressed agricultural markets while failing to spend on rural infrastructure or even fertiliser. Crucially, an unreformed economy means inadequate exports of goods or commodities that could pay for food imports.

Calculating North Korea's food needs is a politicised game of inadequate data. The IIE paper, by Stephan Haggard, Marcus Noland and Erik Weeks, reckons that the country needs 4m tonnes of grain a year (one-fifth less than estimates by the WFP). The authors conclude that, in the absence of the massive food aid that was supplied in the years after the famine, there is now less than 100,000 tonnes to spare.

In one sense the situation is more critical than in earlier years. In 2005, after a decent harvest, the regime sought to stamp on burgeoning markets, redirect grain supplies through the public-distribution system and get people to return to their work units: male vendors were banned from markets and then, last year, women under 50. Yet the public system is under strain. Andrei Lankov of Kookmin University says that some cities have not accepted ration coupons for food since last year. It is not just grain itself: electricity and fuel for threshing and transport are also short. People are forced on to the black market, where rice has shot up from 860 won (about $6) a kilo a year ago to 3,100 today. Income per head is perhaps $500 a year.

In theory, America is ready to assist with big supplies of aid, but that could take time and, possibly, a satisfactory declaration of North Korea's nuclear programmes. The WFP struggles to raise money and awareness over North Korea's plight. Yet since late 2005 North Korea has restricted its operations in the country.

Grain can come fastest from China and South Korea. But China is concerned about its own food supply, imposing taxes and quotas on exports as global prices rise. China is coy about food donations, but North Korean ingratitude probably reduces the potential amount. After last summer's floods, China refused to

ship UN grain by rail until North Korea returned at least some of its 1,800 missing wagons.

As for South Korea, previous levels of aid are now in doubt under the new administration of Lee Myung-bak. Mr Lee has tied future South Korean assistance to the North to denuclearisation and human rights. Emergency aid is exempt from such conditions, he says, but the North must request it. Having reacted furiously to Mr Lee, Mr Kim's regime will be loth to do so.

Tens of thousands of North Koreans escaped the previous famine by fleeing to China. Covert cross-border trade also helped alleviate some misery. This year, ahead of the Beijing Olympics, China wants no trouble, while North Korea has also cracked down at the border. Good Friends says that in February 13 women and two men were executed for planning to cross into China. The regime calls the first famine the “arduous march” under Mr Kim's glorious leadership. If there is to be a second march, it seems no North Korean is to be allowed to escape its rigours.

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China and Tibet

A lama in sheep's clothing?

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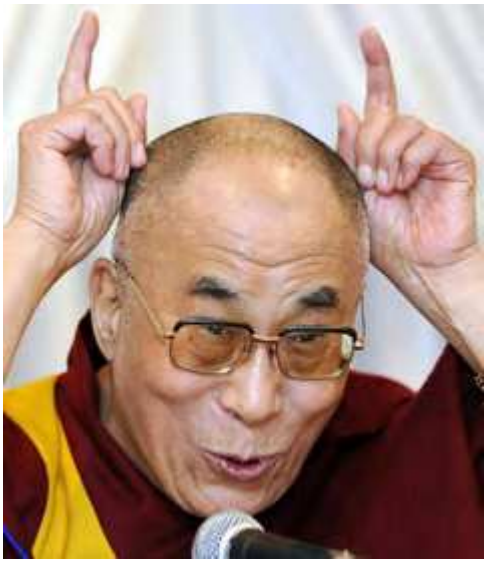
From The Economist print edition

Revered by Tibetans, reviled by China

AFP



The devil China knows

NOT long after calling him a “devil” with a human face and the heart of a beast, Chinese officials are talking again to representatives of the Dalai Lama. But in the Indian hill town of Dharamsala, the seat of Tibet's government-in-exile, few believe China's own heart has changed. “The basis of their attitude towards Tibet is...distrust and fear,” the Dalai Lama told *The Economist* a day after a meeting on May 4th in the southern Chinese city of Shenzhen between two of his envoys and two senior Communist Party officials. It was the first contact between the two sides since unrest broke out in Tibet and other ethnic Tibetan regions of China in March.

Both sides are anxious not to appear to be closing the door. Lodi Gyari, one of the Dalai Lama's representatives at the talks, described them as a “step in the right direction” and said more would be held, though no date has been announced. China said there could be further contact as long as the Dalai Lama showed “sincerity”. China's surprising decision to offer renewed talks seemed aimed at deflecting foreign criticism of its handling of Tibet ahead of the Beijing Olympics in August. But officials in Dharamsala are wary. They deny the Shenzhen meeting was a continuation of six rounds of confidence-building discussions held between 2002 and July 2007. Rather, it was an “emergency conversation” about the present crisis. Mr Gyari said only the next round of talks would count as the resumption of a formal dialogue.

The Tibetans had several demands: an end to the clampdown in Tibet, including the withdrawal of security forces from monasteries; no more “patriotic education” requiring monks to denounce the Dalai Lama; an investigation by an international body into the causes of the unrest; the release of political detainees; and fair trials for those accused of rioting.

None of this will be heard sympathetically by China. The state-controlled press is still vilifying the Dalai Lama and the authorities have maintained a tight grip on Tibetan regions. Visits by foreign journalists remain largely banned and foreign tourists are barred. Late last month, at secret trials in Lhasa, 30 people were sentenced to prison terms of between three years and life for their role in rioting in March. Human Rights Watch, a monitoring organisation in New York, said lawyers in Beijing who offered to represent them were warned by the Ministry of Justice that their licences might be revoked.

The Dalai Lama tries to sound conciliatory. Tibetans, he says, should be proud that China is hosting the Olympics (though, with a characteristic chuckle, he says he does not know whether they will be happy when the Olympic torch is paraded in Lhasa in June). He says he fully supports a “one-China policy”, but that the future of Taiwan should be decided by its own people—which is anathema to China. The Dalai Lama says he is not so concerned about redrawing Tibet's political boundaries to include all ethnic Tibetan areas adjoining it (an idea he once backed strongly, to China's horror). The priority, he says, is to protect the culture and environment of Tibetans. But China will want a stronger retraction than this. It believes the Dalai Lama is still intent on carving out a single Tibetan territory covering a quarter of China's land area.

According to the Dalai Lama, Chinese officials accepted in 2006 during the fifth round of talks that he was sincere in his insistence that Tibet should be part of China. But by the sixth round last year their attitude had hardened. Some of the Dalai Lama's officials say China took fright at signs of his continuing sway over Tibetans in China and his readiness to use it—for example, to persuade them to stop wearing the skins of endangered animals and worshipping Dorje Shugden, a cultic deity.

China's crackdown on the recent unrest in Tibet may limit the Dalai Lama's flexibility in dealing with China. The streets of Dharamsala in the Himalayan foothills are full of Tibetan flags flown in sympathy with Tibetans in China. Ubiquitous gruesome pictures show Tibetans shot by Chinese security forces. The Dalai Lama says there has been “a lot of criticism” of his conciliatory negotiating stand with China. He says he remains fully committed to his approach in spite of recent events. So too, however, does China.

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China and Japan

Blossoming

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But ties between Asia's two biggest powers remain delicate

FIRST came the “ice-breaking”, then the “ice-melting”. Now, Hu Jintao hopes, comes “everlasting warm spring”. A series of reciprocal visits over the past 20 months by the leaders of China and Japan have brought a thaw in bilateral relations. On May 6th Mr Hu, China's president, began a state visit, China's first to Japan in a decade; at five days, it will also be Mr Hu's longest single foray to any country. The next day he and Japan's prime minister, Yasuo Fukuda, signed a blueprint for ties that represented a “new starting-point”, with regular top-level visits in future and both military and cultural exchanges.

The latest freeze began in 1998, when Mr Hu's predecessor, Jiang Zemin, came to Tokyo demanding a lavish written apology for Japan's wartime past. A growing number of Japanese had come to feel that their country had apologised enough for its wartime brutality. Besides, they resented the way a rising China played on war-guilt to extract concessions from its rich neighbour. Relations hit rock bottom under Junichiro Koizumi, Japan's prime minister from 2001-06. Top-level contacts between the two countries were suspended after Mr Koizumi began making devil-may-care visits to Yasukuni, the Tokyo shrine that honours not just Japan's war dead but also executed war criminals.

Mr Koizumi's successor, Shinzo Abe, a right-wing hawk, nevertheless broke with Mr Koizumi's line by visiting Beijing as his first gesture in office. He refrained from visiting Yasukuni. The Chinese were grateful. They were overjoyed when Mr Fukuda took over after a year. He enjoys that double-edged accolade of being a “friend of China”. He has long criticised politicians' visits to Yasukuni and believes that good relations with Japan's Asian neighbours are paramount.

Mr Hu and Mr Fukuda had plenty to talk about. China has overtaken America as Japan' s biggest trading partner. China is hungry for know-how, and Japan thinks it can be of particular help in providing environmental technology—after all, Chinese pollution reaches Japan. For Mr Fukuda, whose domestic standing is shaky, a big prize would be a Chinese commitment to tackle climate change, a big theme at the G8 summit, which Japan will host in July. As for Mr Hu, he will be thankful if his visit passes without strong protests over Tibet.

As the two leaders discussed a panda to replace Ling Ling, who died at Tokyo's Ueno Zoo last week, they stressed improved relations. For instance, the two countries' armies have embarked on confidence-building measures such as port calls by naval ships. Elsewhere, diplomats point to the way a food scare in Japan earlier this year over tainted Chinese dumplings was handled calmly by the authorities on both sides, even as Japan's mass media whipped up hysteria.

Disputes remain, however. One of the biggest is over gasfields in the East China Sea. Despite four official rounds of negotiations, the two countries have failed to reach agreement on joint development, thanks to touchiness about sovereignty. Originally, Mr Hu's visit was to be the occasion for a deal. Still, an enforced bonhomie has set the tone for this visit, with Mr Hu planning a spot of convivial ping-pong. Not long ago comments by China's leaders, thundering editorials and crude films about the second world war did much to stoke anti-Japanese nationalism—violent street protests broke out in 2005, and in 2004 Chinese football fans went on the rampage after their team was beaten by Japan. Now, China wants to tamp such nationalism down. Anti-Japan behaviour at the Olympics would be a disaster.

It may come as a relief to both sides that, according to Horizon Research, a polling outfit, the attitudes of urban Chinese are turning more positive towards Japan. A growing number think historical differences should be set aside. But it will take a lot more ping-pong to erase the impression of many Japanese that they are loathed in China more than they are admired.

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China's latest virus

Better safe than sorry

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Reuters

Once bitten, twice shy: China's past transgressions in reporting viruses come back to haunt it in the run-up to the Olympics

IT IS all too reminiscent of an epidemic that paralysed Beijing and other parts of China in 2003. This month state-run television has been showing pictures of conscientious health officials and mask-wearing schoolteachers fighting an outbreak of disease by spraying disinfectant on every accessible surface. And, as they did in 2003, Chinese authorities are insisting that things are under control.

In 2003 the disease in question was the mysterious Severe Acute Respiratory Syndrome (SARS). As it turned out, the Chinese authorities were lying outright about where things stood. Their obfuscation made things much worse. In the end, SARS spread far beyond China, killing 774 people worldwide. This time the problem is a less exotic and better understood bug, called enterovirus 71 (EV71), which can cause a dangerous form of hand, foot and mouth disease. This is a common childhood illness that sometimes kills but often is cured with no lasting harm.

China has reported 30 deaths in the current outbreak, centred in the town of Fuyang in the central province of Anhui. By May 7th China had reported a total of 15,799 cases. This was a sharp increase from the previous day's tally of 12,000. But officials said this was because surveillance was improving, not because the spread of the virus was accelerating.

There is no evidence of any systematic cover-up by the central government. But local officials took too long to sound the alarm. In Anhui ten doctors handling the outbreak were disciplined for misconduct and—fairly or not—China's poor track record on such matters leads to obvious questions about its openness and trustworthiness. But the World Health Organisation (WHO), which in 2003 struggled mightily with Chinese footdragging on SARS, now sees no indication of a cover-up. The WHO's China representative, Hans Troedsson, expressed concern about the unusual concentration of cases in Anhui, and about the occurrence of pulmonary and neurological symptoms not typically seen with hand, foot and mouth disease. But he also called for “the right perspective” in viewing the situation, pointing out that such outbreaks happen regularly in countries in the region.

Indeed, China last year saw a total of 80,000 cases and 17 deaths. But this year's outbreak has caused unusual nervousness because it comes just three months before the start of the Beijing Olympics in August. As the disease tends to peak in the heat of June and July, health authorities say that more cases are likely. Despite signs of new cases in two Beijing kindergartens, Mao Qun'an of China's health ministry insists the outbreak will have no impact on the games. An anxious nation and its visitors want very much to believe him.

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Smoking in Beijing

Out of puff

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No longer compulsory; in some places not even allowed

Illustration by David Simonds

AFTER meeting only mixed success in its years of campaigning to improve the quality of its air, Beijing is tackling one noxious source of emissions, in a measure that promises better air in offices, meeting rooms and maybe even restaurants. From May 1st smoking has been banned in a wide range of public buildings. Meanwhile, hotels, bars, restaurants and internet cafés have had to provide non-smoking areas. Individuals caught lighting up in the wrong place may be fined 10 yuan ($1.40). Penalties as high as 5,000 yuan await non-compliant businesses and institutions.

Framed as part of Beijing's commitment to holding a “smoke-free” Olympics this August, the ban will be hard to enforce in a city—and a culture—that loves its smokes. The Ministry of Public Health reports that 350m Chinese, or 26% of the population, smoke, and that 1m die each year from smoking-related illnesses. Among the more worrying trends is an increase over the past decade in the number of women smokers.

Smoking rates in Beijing are lower than the national average, and have fallen since the 1990s when limited restrictions were first put in place. According to a study by the Capital Medical University in Beijing, the proportion of smokers in the capital dropped from 34.5% in 1997 to 23% last year. But those who keep at it can be a stubborn lot. When *Meizhou Dongpo*, a restaurant chain, tried to implement a total smoking ban at its Beijing outlets last October, it saw a rapid and drastic decline in its business. The chain's waitresses found themselves locked out of private dining-rooms by renegade puffers.

The authorities have even encouraged citizens to rat on violators through a new telephone hotline. Resistance from dedicated nicotine fiends, as well as worried restaurants—originally to be covered by an outright ban—has already led to a watering down of the restrictions. But the truly health-conscious may find life tough. The new rules ban smoking in fitness centres.

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Pakistan

Three-way struggle

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After a brief lull, Pakistani politics is in turmoil again

LESS than three months after surprisingly free general elections on February 18th and the smooth formation of coalition governments across the country, Pakistan is in a mess again. It is teetering on the brink of food riots, industrial lay-offs and strikes against daily 12-hour nationwide power cuts. The economy is slipping. Capital flight has taken nearly 5% off the value of the rupee against the dollar in the past few weeks. The war against extremists in the tribal badlands is going nowhere.

Instability has returned to haunt politics. The new coalition government, led by the Pakistan People's Party (PPP) of Asif Zardari, the widower of Benazir Bhutto, is besieged by the press and a relentless lawyers' movement. They demand the restoration of the senior judges sacked by President Pervez Musharraf last November. The PPP's main partner in the federal and Punjab-provincial governments, the Pakistan Muslim League, or PML(N) of Nawaz Sharif, a former prime minister, is threatening to quit the coalition if it does not honour its pledge to reinstate the judges. The two agreed in March that they would do so by April 30th but later squabbled over how to go about it. The latest deadline is May 12th.

The two parties have agreed on the wording of a parliamentary resolution to bring the judges back. Mr Sharif insists that once it is passed the government should simply issue an order. But Mr Zardari wants a constitutional amendment. He fears that the incumbent Supreme Court judges, appointed by Mr Musharraf and due to lose their jobs if the deposed judges are reinstated, will strike down an executive order and ask Mr Musharraf and the army to protect them, bringing a confrontation with the government. As the constitution amended by Mr Musharraf stands, the appointment of senior judges is the task of the president and the chief justice of the Supreme Court can ask any organ of the state to protect and defend it.

The constitutional niceties mask a political power struggle. Those who want the old judges restored by a stroke of the executive pen also want to see the back of President Musharraf immediately. They expect the restored old judges, infuriated by the president's high-handed treatment of them, to overthrow him, declaring his election and all his edicts illegal. For its part the press was angered by a crackdown by Mr Musharraf last year. He shut down the leading television channels and banned some outspoken anchors who were supporters of the lawyers' movement. And Mr Sharif sees the ousting of the man who overthrew him in 1999 as the first step in his bid to reclaim the prime ministership.

Mr Zardari, however, believes any confrontation with the president, army and judiciary would play into the hands of his political opponents. That means, above all, his coalition partner, the PML(N), which is hoping for a new general election sooner rather than later. He also thinks that Mr Musharraf should be weakened politically but not eliminated at once. He argues that the economy would suffer if he goes, because American annoyance and doubts about Pakistan's commitment to fighting extremism would damage confidence. Civilian governments, sensitive to popular opinion, may find it hard to take tough decisions involving the continued use of force. So Mr Zardari wants a constitutional amendment that would accommodate both old and new judges while clipping Mr Musharraf's power to sack the government and parliament at will.

But the political scene gets murkier by the day. In a shocking move on May 5th the Election Commission postponed by-elections for 30 provincial and eight federal parliamentary seats from June 18th to August 18th. It cited rising security concerns in the North-West Frontier Province, which is badly hit by Taliban militancy. It later relented and set a new date of June 26th. The PPP had strongly condemned the delay, but it emerged that the initiative came in fact from Mr Zardari's aide, Rehman Malik, who is also the de-facto home minister. The signal was clear enough: if the PML(N) doesn't play ball with the PPP and leaves the coalition, the PPP would have no option but to ally with the “king's party” of Mr Musharraf. This would enhance Mr Musharraf's role, annoy most Pakistanis and erode popular goodwill for Mr Zardari. But with deadlock over the judges looming, Mr Zardari has few appealing options. Nor does Pakistan.

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Iraq, Iran and the United States

Whose side are they all on?

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Illustration by Peter Schrank

The Americans and the Iraqis find it hard to read the ambiguities in Iran's policy towards Iraq

IN HIS five years as Iraq's foreign minister, Hoshyar Zebari has often expressed alarm at the prospect of his battered country becoming a cockpit for a power struggle between the Americans and their regional enemies, Iran and Syria. Keep your quarrels away from us, says Mr Zebari, an affable Kurd, who has kept his job longer than any other minister since Saddam Hussein was toppled. Iraq has more than enough on its plate already, he says.

In recent weeks fighting has intensified, with Iraqi and American forces fighting together against assorted Shia militias and “criminal gangs” (in the government's words) linked to Iran—first in Basra, the main port city of the south, and now in the Shia districts of Baghdad.

Basra has since got much calmer. But fierce fighting has continued in the sprawling slums of Sadr City, home to some 2m Shias and a bastion of support for a populist Shia cleric, Muqtada al-Sadr, and his Mahdi Army militia. Iraqi health officials say that more than 1,000 people have been killed since the fighting began in late March. In return, Sadrist militiamen have sent waves of mortars and rockets hurtling into the Green Zone, the fortified district on the west bank of the Tigris river where Iraq's government is situated, as well as the American and British embassies.

Iraq's prime minister, Nuri al-Maliki, a Shia, has repeatedly stressed that the military campaign he launched in March, backed by American and British forces, was not directed against any one faction, certainly not just the Mahdi militia. It was, he said, an effort to impose the rule of law. Iraq's government is setting great store on provincial elections in the autumn, and Mr Maliki says he wants to disarm all the militias before they take place.

In his onslaught on these armed groups, Mr Maliki, not so long ago widely dismissed as weak and sectarian, has won rare support from most of the main political parties across the spectrum—Kurdish, Sunni and Shia. But the Sadrists have cried foul, raising fears among Mr Maliki's backers that prolonged fighting may drag Iran and America more deeply into a conflict that many Iraqis, including Mr Zebari, would rather solve without their involvement. As the words exchanged by America and Iran, Mr Maliki's two key international backers, get angrier, the prime minister and his government face a dilemma.

Indeed, says a European diplomat, a “perfect storm” could brew up, with Iraq's already blighted political landscape being further ruined by battles fought by outsiders. “Iraq is getting caught in the middle and

the tensions are affecting it immediately and directly," says the diplomat.

It is devilish hard to fathom Iran's precise intentions in Iraq. No one can say with certainty how much influence it has on the main political groups, including the one loyal to Mr Sadr, on whom Iran's government seems to blow hot and cold. Nor is it clear why large numbers of Iranian-made weapons are turning up in the hands of Shia militiamen, who undermine a government that Iran seeks to strengthen. This week, Iraqi state television aired images of an Iraqi general in Basra standing by a seized cache of rockets, which he said could have been supplied only by Iran's army. One of Mr Sadr's top men, Salah al-Obeidi, said that a criminal gun-running network that has operated in the region for years probably acquired the arms. "Everyone, even the pro-government forces, has Iranian weapons," he explains.

Moreover, American and Iraqi forces have tried to draw a distinction between the mainstream units of Mr Sadr's Mahdi Army and what American commanders call "special groups", who are funded and trained by Iran and have fought on, despite a truce called by Mr Sadr.

Iran's government has fiercely denied the charges, refusing to take part in the next round of talks with American officials on security in Iraq until American troops stop killing innocent people in Sadr City. This week Haider al-Ameri, a senior figure in the Islamic Supreme Council of Iraq, a key party in the ruling Shia-led alliance, annoyed Mr Maliki by saying there was little evidence of direct Iranian interference.

Moreover, Iran has long argued that it is the presence of American troops in Iraq that is most responsible for destabilising both the country and the region. Yet, confusingly, the government in Tehran has endorsed Mr Maliki's American-backed campaign to impose his will on the Shia militias, which is the main reason for the current spate of fighting in Sadr City.

Stirring this diplomatic stew still more, a group of pro-Iranian politicians from Iraq's ruling Shia alliance this week embarked on a bout of freelance diplomacy, flying to Tehran to present the Islamic Republic with evidence of Iranian involvement in recent fighting in Iraq. But the trip achieved little. Iran's supreme leader, Ayatollah Ali Khamenei, refused to see them.

Still, there have been efforts by people close to Iraqi and Iranian centres of power to accommodate each other. In recent weeks Iraq's president, Jalal Talabani, a Kurd, has twice gone to the border between Iraq and Iran to meet Qassem Suleimani, the head of Iran's Quds Force, a special unit of the Iranian army which helps revolutionary Islamist forces in the region, including Lebanon's powerful Shia movement-cum-militia, Hizbullah. Mr Talabani, who has known Mr Suleimani since the Kurdish leader's days in opposition to Saddam Hussein, appealed for Iran's help to reduce tension between Iraq's various militias. Mr Suleimani is said to have agreed, adding some rude words about Mr Sadr.

Have the Iranians turned against Mr Sadr? Or do different parts of Iran's establishment have different agendas? Iraqi intelligence sources say that the Iranians had once hoped to groom Mr Sadr, who has spent most of the past year in Iran, as an Iraqi version of Hassan Nasrallah, the charismatic head of Lebanon's Hizbullah. Mr Nasrallah, whose family is linked to the Sadrs, has become influential and widely admired in the region.

But most rank-and-file Sadrists are fierce nationalists and would strongly object to the idea of boosting Iran's influence. For instance, this week one of Mr Sadr's prominent members of parliament, Hassan al-Rubaei, walked out in protest against the fighting in Sadr City. But he was equally fierce in his condemnation of both the Americans and the Iranians.

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Yemen

Anxious times

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From The Economist print edition

Violence in a notoriously rugged country has worsened

A POOR, mountainous country that clings to the south-west tip of the Arabian peninsula, Yemen seems in danger of falling into Somalia's lap. Not physically, by toppling across the Gulf of Aden that separates the countries, though some may imagine that the influx of 100,000-plus destitute Somali refugees may shift its centre of gravity. The worry is that Yemen may tilt towards becoming a failed state.

In the past few years, it has dropped to 153rd among the 177 countries listed in the UN's human-development index, a mix of such things as life expectancy, education and average income. More than a fifth of its 22m people are malnourished. Yemen imports 75% of its food, but even so it is using up scarce water supplies so fast that the aquifers most people rely on may dry up within a decade. Increasingly, with an estimated 17m guns flooding the country, tribes are clashing over access to wells.

Yet other security problems are worse. Since 2004, a miniature war has sputtered in the far north, pitting tribesmen from the Zaidi Shia minority against the central government in Sana'a, which has used tanks and aircraft, as well as, say critics, Sunni jihadist volunteers, to subdue the rebels. Though outsiders are generally barred from the region, casualties have been estimated in the thousands, with tens of thousands of civilians forced to flee their homes. More than 50 people have been killed in the past week alone, at least 18 of them when a bomb went off by a mosque in the provincial capital, Saada.

Unrest is rising in the far south, too, where resentment simmers over alleged discrimination since formerly separate South Yemen (once the British colony of Aden plus an outlying British protectorate of emirates) united with the more populous north in 1990. Big riots hit the city of Aden last month. And there have been a spate of small-scale attacks elsewhere, including mortar fire on the American embassy in Sana'a in March and on Italy's in April. Who was responsible is unclear. Islamist extremists related to al-Qaeda, which suffered setbacks when the government cracked down on it between 2001 and 2003, have regrouped and been reinforced by Yemeni jihadists returning from Iraq.

Yemeni opponents of President Ali Abdullah Saleh, who has ruled since 1978, suspect something murkier. Though co-operating at some levels with the West against jihadist terrorism, his regime, perhaps because of its many security headaches, has lately treated Sunni Islamist radicals more softly. Terrorist suspects have recently received light sentences or been allowed to “escape” from prison. Last month Mr Saleh met Robert Mueller, head of America's FBI, and is said to have rebuffed an appeal to hand over al-Qaeda members accused of involvement in an attack in 2000 on an American warship, the *USS Cole*, that killed 17 American sailors.

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Zimbabwe

Mixed signals

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A run-off for the presidency beckons, but will the opposition take part?

AFP

Morgan prays for more monitors

FOLLOWING the aftermath of Zimbabwe's presidential election is like watching a horror film in slow motion. It took over a month for the Zimbabwe Electoral Commission to announce the first-round results. On May 2nd it finally said that Morgan Tsvangirai, leader of the opposition Movement for Democratic Change (MDC), had finished first with 47.9% of the vote, against President Robert Mugabe's 43.2%. Now it is taking its time to decide when a run-off, which should have taken place within three weeks of the first-round election, should be held. Meanwhile, government-sponsored violence against opposition supporters is spreading and the MDC, which insists that its man won outright with more than 50% of the vote, is keeping mum on whether it will take part in a run-off.

The opposition has rejected the results, because, it says, they were announced without being properly verified. It did not have a chance to compare the results it collected from polling stations with the electoral commission's tally. Independent monitors, too, have questioned the announcement's credibility. The MDC's leaders met this week to discuss whether to take part in a second round. A spokesman says a decision was made, but it will not be announced before the electoral commission lets the party verify results and a date for the new poll has been decided on. The party has been sending mixed signals in the past few weeks, at first saying it would not take part as no run-off was necessary but at times saying it would, provided the violence stopped and the poll is properly monitored. The big snag is that sitting it out would mean letting Mr Mugabe stay in power.

So diplomacy is in full swing. The African Union (AU) dispatched Jean Ping, a Gabonese who runs its administration, to Zimbabwe's capital, Harare, where he met Mr Mugabe and the electoral commission. Zimbabwe was to be discussed at an AU foreign ministers' meeting in Tanzania this week. A delegation from the Southern African Development Community (SADC), a regional club of 14 countries (including Zimbabwe), which has led the diplomacy so far, visited Harare, with Angola's foreign minister at its head. South Africa's president, Thabo Mbeki, who has been SADC's main mediator, reportedly also sent a team. The UN secretary-general, Ban Ki-moon, who has fretted over the rising violence, said he was discussing with African leaders how the UN could help ensure a credible second round, which could mean sending monitors or a special envoy.

But so far there has been no sign that Mr Mugabe would accept a beefed-up monitoring presence, let alone groups from outside Africa, such as the UN, which might give the MDC a fairer chance. Some SADC countries, notably Botswana, Tanzania and Zambia, have shown signs of impatience with Mr Mugabe. Indeed, SADC's own credibility, tarnished by its feeble performance to date, is at stake. But there is still no collective determination to let the MDC displace him.

If a second round were to take place, Mr Tsvangirai, who has been out of the country for most of the time since the election's first round on March 29th, could count on the support of the much smaller MDC breakaway faction led by Arthur Mutambara. In the first round, Mr Mutambara's group had put its weight behind Simba Makoni, a former finance minister who broke away from the ruling ZANU-PF ahead of the election.

But it is unclear what Mr Makoni, who got 8.3% of the first-round vote, may do. He favours a national unity government to tackle the economic chaos before a new election. “We need to deal with the immediate crisis together,” he says. In a fair election, most of his first-round voters would probably back Mr Tsvangirai in a run-off. Indeed, if the playing field were level, Mr Tsvangirai would plainly win it with

ease.

But it is hard to imagine a remotely fair second round any time soon. Thousands of people have fled violence perpetrated by pro-government militias; many of their houses have been burnt down; others are likely to be too frightened to return home to take part in a second round. The MDC says that at least 20 of its people have been killed and hundreds beaten up. Teachers, many of whom were polling officers in the first round, say they are being hunted down; two have apparently been killed. Independent local monitors complain of being beaten up too, their leaders harassed. The ruling party is still challenging the results of the parliamentary election, which they lost to the MDC.

It is unclear how Zimbabwe could even pay for another election. The central bank went into a frenzy of printing to bankroll the first round, which pushed the official rate of inflation to more than 165,000%; the real figure is probably several times higher. The Zimbabwe dollar, which was more valuable than the American greenback at independence in 1980, is now having to be printed in notes of 250m—worth just a bit more than an American dollar.

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South Africa

Scorpions stung

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From The Economist print edition

South Africa's special crime-busting team may be on its way out

Get article background

THE future of the Directorate of Special Operations (DSO), better known as the Scorpions, South Africa's special unit fighting organised crime and corruption, has looked bleak since December. It was then, at a crucial once-in-five-years party conference, that the ruling African National Congress (ANC) decided that the Scorpions should be disbanded by June. At the same meeting, at Polokwane, it elected Jacob Zuma, whom the Scorpions had investigated for years and accused of corruption and fraud, as its new party president in place of the country's present state president, Thabo Mbeki. The ANC is keeping its word: the cabinet has approved two bills, soon to be put to Parliament, that provide for the absorption of the Scorpions into the police. Much needs to be done before the bills become law and the June deadline may well be missed. But the Scorpions' days look numbered.

Mr Mbeki set up the unit in 1999, when crime was surging and the police unable to cope. Since then, little has improved. Jackie Selebi, the chief police commissioner who admitted being friends with a notorious criminal, has been suspended after being charged with corruption. This has dented the confidence of the police. Most South Africans think graft is increasing. The Scorpions' high-profile cases, which include those of Messrs Zuma and Selebi as well as others against big crime networks, have brightened their image as fearless crime-busters. The unit has put a lot of people behind bars.

But critics say the Scorpions have abused their power. Mr Zuma's fans claim that the former vice-president is the victim of a political conspiracy. In September Mr Mbeki suspended Vusi Pikoli, head of the National Prosecuting Authority, under whose aegis the Scorpions fall. The official reason was a breakdown in his relations with his boss, the justice minister. It also turned out that Mr Pikoli was about to arrest Mr Selebi.

The Scorpions are certainly controversial. They choose their cases selectively, feeding a perception of political bias. Some investigations have dragged on too long; information is regularly leaked to the media. For years the police and the Scorpions have trod on each others' toes. The unit appears to have ventured into intelligence gathering, which is beyond its mandate.

To justify its decision, the ANC has advanced various arguments, from having to separate powers to avoiding turf wars. But it is hard to believe that its dogged determination to squash the Scorpions has nothing to do with a desire to shield its own. A commission headed by Judge Sisi Khampepe, who was asked by Mr Mbeki in 2005 to examine whether the Scorpions should be scrapped, concluded that they should stay—under the prosecuting authority rather than being incorporated into the police. It also suggested ways of dealing with the Scorpions' shortcomings. The full report, under wraps for two years, was released this week.

The opposition is cross. TNS Research Surveys, a pollster, says that 59% of metropolitan South Africans think the Scorpions should stay separate from the police. A businessman has gone to court to stop the merger. Hearings over whether Mr Pikoli should keep his job began this week and could reveal embarrassing details.

But the Scorpions may already be retracting their stings. Many of their people are loth to join the police and are busy looking elsewhere for jobs. The World Bank has just announced that it has recruited Leonard McCarthy, the Scorpions' boss, to lead its corruption-busting unit. That is a pity. South Africa badly needs its own anti-corruption force.

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Russia

A strange Kremlin wedding

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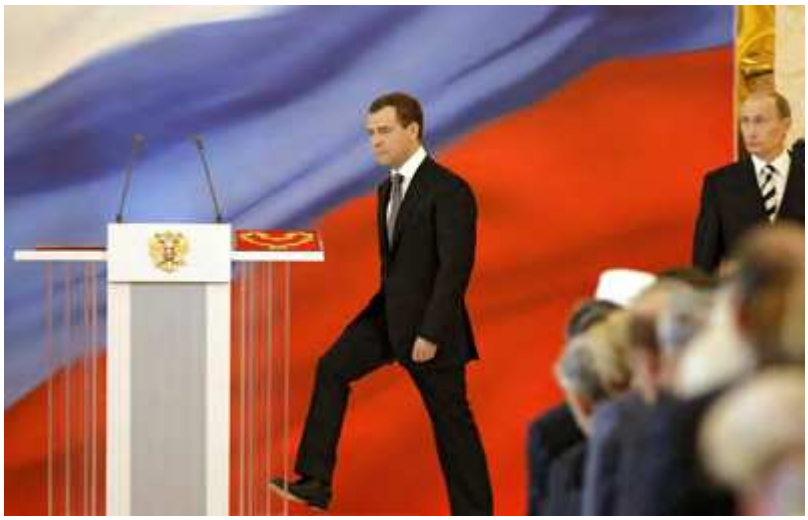
AFP



A youthful Dmitry Medvedev is inaugurated Russian president, but a stern Vladimir Putin looms large behind him

THEY arrived separately but walked out together. Like a bridegroom in church, Vladimir Putin arrived for the ceremony first. In front of 2,400 guests, he entered through the Kremlin's oldest and grandest banqueting hall. Only after he had taken his place at the podium, with the patriarch of the Russian Orthodox Church in sight, did the television cameras show the “bridal” motorcade arriving. The new president, Dmitry Medvedev, walked in through an ordinary entrance and stood next to Mr Putin. If there was any doubt about seniority in this tandem, Mr Putin then spoke first, about “passing the symbol of state power to Dmitry Medvedev.”

In his own speech, the 42-year-old Mr Medvedev promised to protect the freedoms and rights of Russian citizens. A few minutes later, the two men emerged from the Kremlin—Mr Putin in a long black coat, his protégé in a short black raincoat. “Comrade president”, the head of the presidential guard seemed to address both, as they stood shoulder to shoulder.

The inauguration took place at midday on May 7th. It marked the end of “operation successor”, devised in the depths of the Kremlin. But for all the pomp and theatre, it did not answer one simple question: who is now in charge of Russia? What is clear is that the transition of power has not taken place—or at least, not yet.

Mr Putin respected the letter of the constitution by stepping down from the job. But the red-bound document, carried by a goose-stepping soldier as part of the ceremony, has proved surprisingly accommodating for him. This may be the first time in Russian history that an incumbent president has left office in line with the constitution and at the peak of his popularity; but it is also the first time that he has stayed on as leader. As Dmitry Peskov, Mr Putin's spokesman, puts it, “Medvedev will be the head of state. But of course Putin is not going anywhere. As prime minister, he will be implementing the tasks he set out as president over the past eight years.”

Exactly 24 hours later Mr Putin was confirmed as prime minister. To gain extra legitimacy he turned last December's parliamentary election into a referendum on his own popularity; and has since become the leader (though not a member) of United Russia, the party that dominates parliament. In preparation for his move from the Kremlin, Mr Putin gave himself extra powers, including oversight of regional governors; and transferred more mundane tasks to some ministries, giving himself time to concentrate on strategic tasks.

According to Mr Peskov, as prime minister Mr Putin will use powers that were underused by his predecessors. What is less clear is what precisely Mr Medvedev's role will be—besides presenting a friendlier face to the West—and whether he will be allowed even to make significant appointments of his own.

“In the run-up to the inauguration, Medvedev was subjected to a series of humiliations, conscious or not, by the Kremlin, by Putin, and by part of the elite,” comments Lilia Shevtsova, of the Carnegie Moscow Centre. Two days beforehand, state-controlled television showed Mr Putin chairing his final cabinet meeting. His speech was like a headmaster's pep talk on the last day of term. At the end, in a matter of fact way, he wished Mr Medvedev well. “Thank you,” whispered Mr Medvedev, who occupied only third place in the news bulletin, as chairman of a meeting of trustees of an art museum.

Even Russian businessmen put their money on Mr Putin remaining in charge. Oleg Deripaska, Russia's richest man, told journalists that “his [Medvedev's] role is important. But you need to understand: it is a big challenge to take responsibility. As I understand it, Putin accepted this responsibility to develop his 2020 goals.” An opinion poll confirms that, although many Russians (47%) believe that Mr Medvedev should have real power, only 22% think that he will.

It is entirely possible that Mr Medvedev will remain a faithful minion and be smothered by the embrace of Mr Putin's appointees. But the Kremlin is a powerful fortress. So there is also a chance that Mr Medvedev will try to establish himself as an independent politician. If he is to do it, however, he will need to act fast.

The liberal, westward-looking part of the Russian elite wants to see Mr Medvedev as a beacon of the post-Putin thaw. They will try to exploit any cracks between Mr Putin and Mr Medvedev to steer the country in a more liberal direction. The new president's speeches are certainly encouraging. He talks of the supremacy of law. In his inaugural speech, he said that Russia's success was impossible without economic and civil liberties. Unlike most of the ruling elite, he did not serve in the KGB, which may make him less prone to paranoia and conspiracy theories. On the other hand, he owes everything he has, including the presidency, to Mr Putin.

Even if Mr Medvedev and Mr Putin stay loyal to each other, they may find it hard to contain the fierce rivalry among their apparatchiks. For the past eight years all power has been concentrated in the Kremlin. Any transfer to the government, even under Mr Putin, may seem like exile, not promotion. There is sure to be confusion on servile state television, which has long relied on the Kremlin's directions. “The Russian political system is based on the personification of absolute power and does not tolerate a division of formal and real power,” notes Ms Shevtsova.

Indeed, the biggest danger is not that Mr Putin stays in charge, but that nobody will be in charge. As Yulia Latynina, a commentator, puts it, for all his macho image many of Mr Putin's commands drown in a jelly-like mass of conflicting interests. Having destroyed any semblance of democratic institutions and with no rule of law, Mr Putin's rich barons have to rely on shaky agreements. They are understandably nervous about transfers of power, even symbolic ones.

Hence, says Andrei Illarionov, a former economic adviser to Mr Putin now turned critic, the hastiness with which Mr Putin assumed his new post. Hence also the tanks on the streets and fighters in the air, ostensibly as a rehearsal for Moscow's military parade on May 9th. But unlike a military parade, which symbolises order and predictability, Russian politics has neither clarity nor structure. “There is always this fear in the Kremlin: what if we left something out?” says Mr Illarionov.

Yet, for all the uncertainty of the political class, there is little nervousness or even suspense among the public. Having been deprived of any say in politics for most of Mr Putin's rule, Russians resort to the traditional formula of “why worry, it will all be decided for us anyway.” Tellingly, the public was kept away from the Kremlin ceremony. Mr Medvedev's motorcade drove through empty streets.

But if people care little about infighting in the Kremlin, they care a lot about rising prices and corruption. Unlike Mr Putin, who took over the Kremlin at a good moment in the economic cycle, Mr Medvedev assumes the presidency with inflation in double digits, oil production falling, and utility bills going up. This could be one factor that the Kremlin scriptwriters have not taken into account.

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Italian tax returns

Publish and be taxed

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Uproar over a decision to put everybody's income-tax returns on the internet

Illustration by Peter Schrank

ITEM 100237099149 was a bargain. Offered for sale on eBay on May 5th, it was a CD of the "income-tax returns for 2005 of the entire Italian people". Until it was removed after a few hours, it could have been bought for around $75.

Five days earlier Italians had learnt, to their varying dismay, amusement and fascination, that—without warning or consultation with the data-protection authority—the tax authorities had put all 38.5m tax returns for 2005 up on the internet. The site was promptly jammed by the volume of hits. Before being blacked out at the insistence of data protectors, vast amounts of data were downloaded, posted to other sites or, as eBay found, burned on to disks.

The uproar in families and workplaces caused by the revelation of people's incomes (or, rather, declared incomes) can only be guessed at. A society aristocrat, returning from St Tropez, found himself explaining to the media how he financed a gilded lifestyle on earnings of just €32,043 ($47,423). He said he had generous friends.

Many suspected that the publication of the returns was a bitter good-bye from Romano Prodi's centre-left government. Although he convincingly won last month's general election, Silvio Berlusconi's new administration took office only this week. The Prodi government certainly waged a high-profile war on tax evasion. Critics note that the measure authorising the release of the returns was signed on March 5th, but not enacted until after the defeat.

Officials insist that the timing was accidental. The finance minister, Tommaso Padoa-Schioppa, called the publication "extreme and explosive", whereas his deputy, Vincenzo Visco, who was responsible for stamping out tax dodging, said it promoted "transparency and democracy". Since the 1970s, tax returns have been sent to town halls where they can be seen by the public (which is how incomes of public figures reach the media). Officials say blandly that they were merely following government guidelines to encourage the use of the internet as a means of communication.

The data-protection authority disagreed. On May 6th it ruled that releasing tax returns into cyberspace was "illicit", and qualitatively different from making them available in paper form. It could lead to the preparation of lists containing falsified data and meant the information would remain available for longer than the 12 months fixed by law.

The affair may not end there. A prosecutor is investigating if the law has been broken. And a consumer association is seeking damages. It suggests €520 per taxpayer would be appropriate compensation for the unsolicited exposure.

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Serbia's election

Balkan ballot

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The European Union is doing its utmost to influence Serbia's voters

AS THE votes are counted in Belgrade, all of Europe will hold its breath. Some 100m people will be watching this year's Eurovision song contest in Serbia on May 24th. Rather fewer will keep an eye on Serbia's election on May 11th. The Eurovision vote is good for a pan-European laugh—but the election portends gloom or worse.

AP

A fine flag: but who will wave it next?

This will be the fourth time Serbs have voted since October 2006. Especially since Kosovo, which Serbs claim as their southern province, declared independence on February 17th, the issues have always been: how to respond to countries that have recognised Kosovo; how to deal with the European Union, whether to co-operate with the UN war-crimes tribunal in The Hague; and whether depending on Russia (or a modern version of Yugoslavia's non-alignment) is an alternative to Europe for this small, flailing Balkan country.

The attitude of ordinary Serbs was neatly summed up by *Politika*, a leading daily, which said this week that the voters are “stumbling around” in a fog of confusion. They are not the only ones. Equally bemused are EU foreign ministers, who zig-zag from one policy to another in dealing with Serbia. On April 29th Serbia's president signed an agreement with the EU that may set it on the path to membership. The EU had said that Serbia could not have such a deal until it was deemed to be searching properly for men indicted by the war-crimes tribunal (especially the Bosnian Serb wartime leader, Ratko Mladic). But in a bid to boost the pro-European parties, Serbia was allowed to sign after all, albeit with caveats.

The invective after the signature was of a kind not seen since just before the assassination of Zoran Djindjic, Serbia's reforming prime minister, in 2003. A spokesman for Vojislav Kostunica, the outgoing prime minister, said that President Boris Tadic had put “Judas's seal on the surrender of Kosovo, by order of NATO”. Mr Kostunica and Tomislav Nikolic of the Radical Party, whose founder is on trial for war crimes, claim that the EU agreement is tantamount to recognition of Kosovo's independence. If they can push Mr Tadic's Democrats out of power, they promise to annul it. It would anyway be a dead letter, since Mr Nikolic says he will not even pretend to look for indicted war criminals.

Perhaps worried that the agreement was not helping Serbia's pro-European parties enough, 17 EU countries announced on May 6th that Serbs would no longer have to pay for visas. Whether this will affect the election remains to be seen, but it will outrage citizens of other western Balkan countries, such

as Macedonia, which is far ahead of Serbia in introducing the secure passports that are in theory necessary for such a concession.

In Serbia the opinion polls have remained steady over the past month. They put the Radicals marginally ahead of the Democrats, with support for each hovering at around a third. If this is the eventual result, Mr Kostunica will once again be a kingmaker, just as he was after last year's election. He now looks more likely than before to ally with the Radicals. But unless something unforeseen happens, months of time-wasting coalition bargaining can be expected after the vote.

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Germany's security strategy

Thinking the unthinkable

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A controversial proposal to create a national security council

WAS it the start of a serious debate about German security, or a blueprint for militarism and a presidential style of foreign policy at odds with German tradition? Or both? These questions arose on May 6th, when parliamentarians of the Christian Democratic Union (CDU), the senior partner in the “grand coalition”, issued a paper calling for the creation of a national security council; and for fewer limits on the deployment of armed forces at home and abroad.

The reaction of their junior partner, the Social Democrats (SPD), and of the opposition was swift and brutal. George Bush's NSC had encouraged America's march into Iraq, harrumphed the (SPD) foreign minister, Frank-Walter Steinmeier. Mr Steinmeier's influence would be diluted by such a body, which would be chaired by the CDU chancellor, Angela Merkel. Jürgen Trittin, a leader of the Greens, called the proposal a “general attack on fundamental domestic rights”.

The CDU is saying, in essence: grow up. New threats such as terrorism and climate change have emerged alongside older ones, blurring the distinction between domestic and foreign security. Germany's allies want it to take more responsibility for conflict prevention and for policing trouble spots. It has already shed some inhibitions, sending troops to northern Afghanistan and Lebanon, for example. But voters are hesitant and the Bundestag is wary. Germany has resisted American pressure to extend its mission in Afghanistan to the more dangerous south.

The CDU paper suggests the government should do more— eg, sending troops as part of a multinational response to crises without waiting for parliamentary approval. It says that a “networked homeland security” policy also demands that troops sometimes be deployed at home, now all but barred by the constitution. Such decisions would be made by the new national security council. It would analyse threats and co-ordinate responses. Unlike the American version, it would include officials from security-related ministries, but it would have its own staff and report directly to the chancellor. A security council already exists, but it deals mainly with weapons exports, meets in secret and lacks high-powered staff.

Some of this is a repackaging of old ideas (the CDU has long favoured more scope for deploying the army at home). Much may never be implemented. Foreign ministers, who usually come from the smaller party in a coalition, will resist ceding any influence to the chancellor. A new council will not be formed during this parliament, Ms Merkel has promised.

On May 7th the constitutional court ruled that the previous government had erred in approving German participation in flights by AWACS planes over Turkey in 2003 without seeking parliamentary approval. The CDU paper says “too little” about how Germany can contribute to European security, thinks Volker Perthes, director of the German Institute for International and Security Affairs. Some observers detect an attempt by younger party members to position themselves as successors to ageing security chiefs like Wolfgang Schäuble, the interior minister.

In their quest for security the authors may be too eager to weaken safeguards against misuse of power (a draft version of the paper suggested that the line between peacetime and a state of war had disappeared). But they are at least provoking a reluctant Germany to face up to the obligations of being a big European power. Its allies will certainly be pleased.

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Denmark's prime minister

When loose talk may cost a top job

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Anders Fogh Rasmussen's discreet career planning

ALTHOUGH they voted him into a third term as recently as November, most Danes believe that Anders Fogh Rasmussen is planning to quit for a top international job. Months of whispering in corridors have made the prime minister's likely departure Denmark's most talked-about secret. One poll found that only one in eight Danes do not think Mr Fogh Rasmussen is aiming for a plum Brussels job, either as first permanent president of the European Council or at NATO.

The prime minister answers queries with a wearied stock response. "I'm not a candidate for international posts. I have no plans to quit my job as Denmark's prime minister," he tells *The Economist*. But this does not rule out a future candidacy. And Mr Fogh Rasmussen's refusal to give an unequivocal guarantee that he will complete his term, which is due to end in 2011, has fanned speculation. Circumstantial evidence that he is angling for a new job has been piling up. Last month Ritzaus Bureau, the Danish national news agency, combed through his diary and found that he had spent almost as many days abroad as at home so far this year: 53 in Denmark and 47 on foreign trips.

Reuters

Smiling Dane seeks work

His political focus has also taken a decidedly internationalist tinge. On top of the planned United Nations climate summit in Copenhagen next year, Mr Fogh Rasmussen has launched an international commission to create jobs in Africa. On the domestic front, the prime minister has been more vigilant than usual in defusing potentially damaging tiffs, such as whether ministers should attend the Olympics opening ceremony.

Yet he also knows that declaring any candidacy prematurely would be self-defeating, so his reticence is understandable. (This week's rumours suggest that France feels isolated in its support for Britain's Tony Blair and now prefers Luxembourg's Jean-Claude Juncker for the EU slot, with Mr Fogh Rasmussen going to NATO.) But there is another reason for Danish caginess: the euro. Dragging Denmark into the euro would hugely enhance Mr Fogh Rasmussen's credentials.

Returning Denmark to the heart of Europe by winning a referendum to end its EU opt-outs from the single currency, judicial affairs, defence and citizenship has long been a personal ambition. Indeed, Mr Fogh Rasmussen puts getting rid of the opt-outs among his top three political goals, along with tax reform and securing a climate-change deal. "Personally, I'm strongly in favour of joining the euro. We have announced a clear intention to hold a referendum but we have not yet decided on a timetable," he says.

Many pundits think he plans an autumn referendum, maybe as soon as September. The polls give him a chance. One from Greens Analyseinstitut in April had 55% of voters for joining the euro and only 38% against. Public opinion also favours scrapping the other opt-outs. Yet 16 years after their first rejection of the Maastricht treaty, there is a rump of opposition to the euro in Denmark, especially on the far left and far right. Oddly, this could work in the prime minister's favour. Anti-Rasmussen voters may reason that a vote for the euro would enhance his candidacy for the EU job and hasten his departure. A case of yes euro, no prime minister?

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Turkish media

Circulation wars

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The government rounds on its secular critics in the media

TURKEY'S prime minister, Recep Tayyip Erdogan, has long complained that the secular media are out to get him. The chief object of his ire is the country's biggest media conglomerate, the Dogan group, named after its Murdoch-like owner, Aydin Dogan. Mr Erdogan's allies even claim that Mr Dogan's stable of newspapers and television channels played a part in the constitutional court's recent decision to consider banning Mr Erdogan's Justice and Development (AK) Party on the ground that it is trying to impose *sharia* law.

Ever since AK shot to single-party rule just over five years ago, Mr Dogan's flagship newspapers, *Hurriyet* and *Milliyet*, have doggedly sought to expose the government's purported efforts to undermine Ataturk's secular republic. More than a few stories have been outright silly—but others have turned out to be disturbingly true.

Some suggest that the reason Mr Dogan has gone sour on the government is that it has shut him out of lucrative contracts in favour of its pious businessmen friends. Mr Erdogan has prodded these friends to snap up rival titles. The big prize is Turkey's second-biggest media conglomerate, Sabah ATV, which has been in government hands ever since its owners went bust. It has been stuffed with pro-government hacks.

A week ago Ahmet Calik, a close associate of Mr Erdogan's, shelled out $1.1 billion for the group. The deal has sparked controversy on several counts. Mr Calik was the sole bidder. Mr Erdogan's 29-year-old son-in-law, Berat Albayrak, is chief executive of Mr Calik's holding company. Moreover, Mr Calik raised two-thirds of the money for the purchase ($750m) from two state-owned banks. Another $125m came from a Qatari company, which will give it a 25% stake in Sabah ATV.

Mr Erdogan is said to have lobbied the emir of Qatar personally to invest in the deal. This week the opposition Republican People's Party (CHP) asked parliament to investigate it, saying that “it stinks”. But the CHP is itself under scrutiny for funnelling $3m to a shrilly anti-government TV channel, Kanalturk, which gives much of its air-time to former generals.

Mr Erdogan's efforts to tame the press include dozens of court cases that he has filed against journalists who dare to attack him. His latest target is a weekly cartoon magazine, *Leman*, which published a photograph doctored to show him raising a finger. Mr Erdogan is seeking $16,000 from Leman on charges of publishing a grave insult.

Meanwhile, the secular media have been having a field day with a sex scandal involving a fiercely religious columnist for *Vakit*, a pro-Islamic daily. Huseyin Uzmez, 78, was arrested in late April on charges of raping a 14-year-old girl. The habitually sanctimonious Islamic dailies chose to ignore the story.

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Charlemagne

Whistling in the dark

May 8th 2008
From The Economist print edition

The risk that the Irish will vote No to the Lisbon treaty is rising

Illustration by Peter Schrank

IF IRELAND votes No to the European Union's Lisbon treaty in a referendum on June 12th, it will become a “pariah”, says its Europe minister. A No vote would drive the Irish from the centre of the EU, leaving them “whistling out in the dark”, declared Bertie Ahern, shortly before stepping down as *taoiseach* (prime minister) this week after 11 years in office.

In Brussels the mood is equally stern. It is common to hear that a No vote in a small country cannot be permitted to interfere with the smooth running of the EU. In February the European Parliament voted down a (symbolic) amendment undertaking to “respect the outcome” of the Irish referendum. The Irish, it is said, should remember what happened when they said No to the Nice treaty in 2001: they were simply invited to vote again. The second time round, they said Yes, thanks to a higher turnout, more energetic campaigning by a chastened government, and a protocol stating that Irish neutrality was unaffected by plans for EU defence. A veteran pro-EU campaigner in Dublin predicts that a No to Lisbon would end the same way. “A second vote is doable, we could always magic up a protocol,” he suggests.

Yet these arguments—that a No spells doom for Ireland, but a mere hiccup for Europe—are the wrong way round. It would be absurd to punish Ireland for voting No. The Irish government is the only one in the EU to have called a referendum on Lisbon. If they were honest, the 26 others would admit that they would struggle to secure a Yes vote, too. The treaty exists only because the EU constitution was rejected by French and Dutch voters in 2005. The new text amounts to a repackaging of the constitution, specially crafted to be ratified by national parliaments (uniquely, Ireland must hold referendums before ratifying any big treaties).

Instead, it is the EU that would face a nasty crisis if the Irish said No. As a veteran politician says, an Irish rejection would release a “very cold shower” over the European parade planned by President Nicolas Sarkozy for the second half of 2008, when France holds the rotating EU presidency. Talks on a new EU president and a beefed-up foreign-policy envoy would be halted: the posts cannot come to life without Lisbon.

Ruairi Quinn, a former finance minister, heads the main pro-Lisbon campaign. He says that it would be “virtually impossible” to make the Irish vote again on a tweaked version of the treaty. Lisbon is already “the inside-out version of the constitutional treaty.” Or, as Eurocrats put it: Lisbon is already Plan B.

A No vote would not be an Irish rejection of Europe. All referendum campaigns are muddles, but this one

is odder than most. It is bombarding voters with 101 contradictory reasons for saying No. Some are rational: Lisbon scraps several national vetoes and will mean that Ireland does not have its own member of the European Commission all the time (this is true for everybody, but a small country may benefit more from having a commissioner). Some are less credible: playing on Irish concerns about being dragged into other people's wars, leading No campaigners accuse the EU of becoming a “militarised” power, capable of deploying thousands of troops round the globe in days. (If only: ask refugees in Chad, who had to wait for months as the EU dithered about sending peacekeepers.)

No campaigners also claim that Lisbon will pave the way for the EU to meddle with low Irish taxes on business—an argument that works only if you think Irish sceptics have spotted a threat to tax sovereignty that the British prime minister, Gordon Brown, has missed (an unlikely thought, for anybody who knows Mr Brown). Some claims are, frankly, mad: a leaflet given out in Cork claims that Lisbon would let the EU bring in a Chinese-style one-child policy. The only parliamentary party campaigning for a No vote is Sinn Fein, the former political wing of the IRA, which has puny support in Ireland. What is more, Mr Ahern's resignation (amid allegations of rum dealings with a property developer) has removed a “big problem” for the Yes camp, says Mr Quinn. The referendum might have become a protest vote against the long-serving *taoiseach*.

The European Commission is trying to help. It has postponed several contentious initiatives until after the Irish vote, notably a debate on the EU budget that might have focused on farm subsidies, and a plan to harmonise the calculation of company taxes. This week the commission announced that it had dropped a discrimination probe into an Irish law that allows bodies like religious schools to favour believers when hiring staff.

Farming the vote

Yet the referendum is not in the bag. A poll on April 27th showed support for a Yes vote dropping sharply to 35%, with the No vote rising to 31% (and 34% undecided). Irish farmers are a wild card. Recently, the main Irish farmers' union brought 10,000 farmers to protest in Dublin, demanding that high import tariffs be maintained on foreign beef to protect Irish exports—or they would vote No. The farmers have no problem with Lisbon as such, admits Padraig Walshe, the union's president. The referendum is merely “a means of applying pressure” on the European Commission, during world trade talks in coming weeks. A big trade union has just come out for a No, claiming that the Lisbon treaty harms “workers' rights” in favour of “big business”.

The Irish remain strongly pro-European. But in Brussels, anxious Irish officials confess that they have started booking flights home to vote in person. “I think it's 50-50,” said one Eurocrat. “I don't want to be blamed if it's a No,” added another, after buying his ticket home. The pro-Lisbon camp faces a dilemma. Hinting that voters will suffer if they reject Lisbon is an obvious way to boost turnout—and a high turnout is key to securing a Yes. But it is hardly a positive argument. True friends do not become pariahs just because they disagree with you. If nobody can find more convincing arguments in favour of the Lisbon treaty, the EU as a whole may yet find itself whistling in the dark.

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Correction: Russia and Lithuania

May 8th 2008
From The Economist print edition

A Russian oil pipeline to Lithuania has been cut since 2006, not 1996 as we stated last week ("Divide, rule or waffle"). Sorry. This error has been corrected online.

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The Conservative Party

The big Mo

May 8th 2008
From The Economist print edition

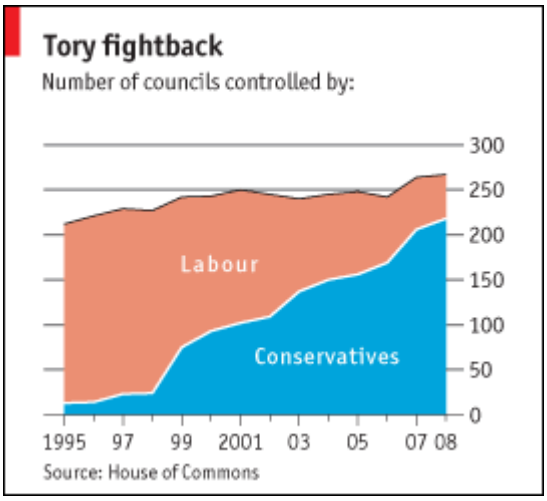
The Tories have now got political momentum but they have still much to prove

PA

FOR a party some historians say has been defined by little more than an instinct for winning and holding power, the Conservatives' long estrangement from high office has been traumatic. On May 1st that dark night of the Tory soul ended when Boris Johnson, the party's candidate for London's mayoralty, defeated Ken Livingstone, Labour's incumbent.

The Conservatives also did better than most had expected in the local elections that took place in England and Wales the same day, scoring 44% of the popular vote. Labour finished third, behind the Liberal Democrats, its share of the vote squeezed to 24%, its lowest since 1968. It now runs only a quarter as many town halls as it did in the mid-1990s (see chart). According to John Curtice, a psephologist at Strathclyde University, if the results on May 1st were repeated in a general election, they would produce a crushing Tory majority in Parliament of 116 seats.

Events in the capital were especially resonant. Mr Johnson, an eccentric former journalist and television personality, is now not only the most powerful directly elected politician in Britain, but also his party's first significant election-winner since John Major won the general election of 1992. His “doughnut strategy”—targeting the Tory-leaning suburbs rather than the more left-wing heart of London—was enough, along with his own celebrity and the tainted reputation of the incumbent, to install a Tory in the office for the first time since its creation in 2000. There was also a somewhat less impressive swing to the Conservatives in the London Assembly, the elected body that is supposed to keep tabs on the mayor.



Beyond the beltway

With success, however, comes scrutiny. Mr Johnson will be something of a trial run for his party nationally as it prepares for a general election that may still be two years away. An assured performance as mayor would reflect well on the Conservative leader, David Cameron, who eventually backed his fellow Old Etonian's run for the party's mayoral nomination. But an administration blighted by Mr Johnson's worst habits—a tendency to make injudicious remarks and an impatience with detail—would bring into

question the Tories' readiness to govern the country.

Fear of the second scenario once gripped Tories, some of whom privately speculated that the best result for the party might be a narrow loss to Mr Livingstone. But most are now reassured by the strategy of surrounding Mr Johnson with able lieutenants. His transition into the role is being managed by Nick Boles, a Tory parliamentary candidate and former think-tank boss close to Mr Cameron. Ray Lewis, a widely admired youth worker, was brought in as a deputy mayor on May 6th. Other eye-catching appointments are expected in the coming weeks. Mr Johnson's scope for embarrassment is also limited by the relatively narrow range of powers he wields; his remit extends little beyond oversight of transport, planning and policing.

But the tougher scrutiny awaiting the Conservatives will not be confined to London's City Hall. Gordon Brown, the struggling prime minister whose initial line of attack against Mr Cameron was to brand him an unreconstructed right-winger, has now taken to calling him a mere “salesman”. Much of the media is beginning to echo his charge that the Tories are travelling too light in policy for a supposed government-in-waiting.

This criticism is only half-right. Behind the scenes, no end of wonkery is taking place. The Tories have published four “green papers”, outlining specific proposals, on issues such as schools and prisons; another 21 are in the pipeline. They have also set up an “implementation unit” under Francis Maude, a former party chairman, which has grilled former ministers and civil servants to determine exactly how the party's ideas will be put into practice. Such efforts to prepare for government are “worlds apart” from the slap-dash work done by Labour before 1997, insists a shadow cabinet member.

Yet public commitments on policy from the Tories are still scarce. The party is particularly cautious on health care, and has not said whether it would restore the 10% starting rate of income tax, the removal of which caused Mr Brown's latest round of woes. Nor is there a clear sense of the party's priorities, though Mr Cameron made a stab at this on May 6th, naming welfare reform, schools and strengthening families as his big issues (a list which, as if to demonstrate how much British politics has changed over the past year, does not include the environment, the dominant theme of his early months as party leader). To be sure, May 1st showed that voters are no longer embarrassed to vote for the Conservatives. But without a clear understanding of how the country would be different under Mr Cameron, they appear to be less enthused by the Tories than they were by Labour in the mid-1990s.

And even if Mr Brown's own performance as prime minister does not improve, external circumstances could yet conspire to obstruct the Conservatives' path to power. If the economy does better than the public fears at present, that is likely to improve the government's standing. The Tories must also contend with a fearsome culture of resentment against politicians in general. Voters may have lost faith in the government, but it is hard to kindle their enthusiasm for any other party. Moreover, the electoral system remains stacked up against the Conservatives. Tory seats tend to be more populous, and turnout in them higher, meaning that the party wins fewer seats for a given share of the vote than Labour.

The next test for the Conservatives comes on May 22nd in Crewe and Nantwich, a northern constituency where a by-election is being held to replace the previous Labour MP, Gwyneth Dunwoody, who died on April 17th. The Tories need an 8% swing if they are to secure what would be their first by-election gain since 1982. Such a shift in votes would give them a reasonable majority in a general election of around 38 seats.

Mr Cameron, who visited the constituency on May 6th, says winning the by-election will dominate his party's efforts until May 22nd. That looks eminently possible. A survey by Populus, a pollster, published on May 7th put the Tories 11 points clear of Labour. But in the longer term, Mr Cameron will become prime minister only if he can convince voters that he can do a better job of running the country.

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Scottish politics

Another setback for Gordon

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The issue of Scottish independence may hurt the prime minister

GORDON BROWN'S current problems with the electorate were foreshadowed in Scotland shortly before he became prime minister last June. A month earlier Labour had lost power in the devolved parliament to the Scottish National Party (SNP). Now Mr Brown seems to have lost control of the Scottish Labour Party. Overruling the prime minister's caution, Wendy Alexander, who leads Labour in the parliament, said on May 6th she wants a referendum on Scottish independence.

Ms Alexander's announcement was a volte-face. Previously, she had ruled out such a poll on the grounds that she was opposed to independence and that it commanded the support of only a minority of voters. Now, she says, she wants to "bring it on". But her move was also a slap in the face for the prime minister, whose response seemed to reinforce his reputation for dithering. On May 7th he indicated that he wanted to wait at least a year before deciding whether to back a referendum.

If Ms Alexander is in a hurry, it is because the SNP is doing rather well in Scotland—something that is a further cause for concern for Mr Brown. Alex Salmond, who leads the minority government in Edinburgh, has been demonstrating that Labour is not indispensable in its Scottish heartland. Indeed, recent polls suggest that Labour would now get an even bloodier nose in Scotland than it did last year. The SNP has extended its polling lead over Labour in Scottish elections to 14 percentage points in a TNS System Three survey published on May 3rd; in last year's election it was just one point ahead. More alarming still for Mr Brown, the pollsters found that Labour's lead of 21 points in the Westminster election in 2005 has been cut to eight, prompting Mr Salmond to talk of winning 14 seats at the next general election.

But despite the nationalists' popularity, support for independence has shrunk. A YouGov poll published on April 30th found just 25% backing for independence against 59% approval of the present devolved parliament. This helps to explain why Ms Alexander is now calling for a swift referendum whereas Mr Salmond is sticking to his original pledge to have three years of debate and a plebiscite in 2010.

On that timetable, Ms Alexander may benefit from the findings of a constitutional commission, which she set up last month with Tory and Lib Dem support and chaired by Sir Kenneth Calman, an academic. It aims to draw up plans for both a stronger Scottish Parliament and a better relationship between Scotland and England. The commission should report next year, providing a potentially more appealing alternative to independence.

Although Ms Alexander's move may help Labour's political standing in Scotland, not least by showing that she is not afraid to stand up to the prime minister, it may also store up more trouble for Mr Brown. If the commission calls for more concessions by Westminster to Scotland that will hardly be an appealing proposition for Mr Brown to win back disenchanted English voters.

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Taxing multinationals

The other tax rebellion

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Taxing multinationals is no easy task, especially if they can leave

WHEN Gordon Brown's biographers eventually look back on his plodding path to and from the prime minister's office, they would do well to spend time studying the arcane minutiae of his tax policies. His grip on the party's leadership may have been weakened by the rebellion of Labour's backbenchers over an income-tax change that has hit low-paid workers. However, an equally vexing problem facing him and souring his party's electoral prospects lies in a dusty corner of the corporate-tax code.

So far it has caused no more than a trickle of companies to pack their bags for lower-taxed climes, but many more are threatening to do so. Businesspeople are up in arms, warning the government of an "exodus" of firms and speaking darkly of a loss of faith in the government.

At issue are some apparently meek proposals floated almost a year ago by the government to change the way it taxes multinationals. They have provoked an impassioned response, not only because of their own potential impact, but also because they come against a backdrop of high-handed decisions by the government in recent months to increase capital-gains taxes and to introduce new taxes on foreigners living in Britain.

The consternation is all the greater as other countries become steadily more competitive in their taxation of company profits (see chart). "People are feeling extra-twitchy," says Richard Lambert, director-general of the Confederation of British Industry (CBI), a business lobby. "It is clear that the government is short of tax revenue and is pushing hard to make it up in any way it can."

The row is especially damaging for Mr Brown, who appointed Digby Jones, a former head of the CBI, as one of his ministers when he took over at Number 10 and who as chancellor of the exchequer for ten years sought to maintain good working relations with business. The breakdown in that relationship is, at least in one regard, surprising. The government's plan set out last year to abolish tax on the dividends paid to British companies by their foreign subsidiaries was something that business has long lobbied for. At the moment firms pay the difference between Britain's 28% corporate-tax rate and that which was already levied on the subsidiary paying the dividend (if it was lower). This, business says, puts British firms at a disadvantage when compared with companies in other major European countries that do not have a similar arrangement.

Yet the government's proposals carry a sting in their tale. Just doing away with the tax on dividends could have opened the door to widespread erosion of Britain's corporate-tax revenues, which account for about a tenth of all tax collected in the country. Without measures to prevent them from doing so, firms could avoid paying tax in Britain by setting up foreign subsidiaries in countries with lower rates of tax. They could then route their profits through these subsidiaries by, for instance, paying licensing fees or making large interest payments to them.

In order to stop companies from moving all their profits beyond the reach of British tax collectors, the government proposes taxing the "passive" income of British firms, no matter where it is earned. And it is this that has caused outrage. Because it would cover, among other things, interest, rent and royalties, it could lead to substantial increases in the amount of tax paid by some firms. One such is Shire, a pharmaceutical company, which has announced a move to Ireland for tax reasons. Another is WPP, an advertising firm, which is threatening to leave.

The government's proposals go far beyond what is reasonable to protect Britain's tax base, says Michael Devereux, a professor at the Oxford University Centre for Business Taxation. The government is now looking for a way out. Alistair Darling, the chancellor, has met with business representatives and set up a committee to review Britain's corporate-tax system.

However the impasse is resolved, two deeper problems remain that are likely to be revisited. The first is that of trying to figure out where large multinational firms make their profits. The second is how to tax companies that are increasingly footloose. Although corporate tax revenues have stood up remarkably well over the past 40 years, it is not clear whether they will be able to do so in future, says Professor Devereux. “The more successful tax collectors are in preventing firms from shifting profit out of Britain,” he says, “the more they are likely to encourage firms to leave the country.”

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Ethics and the arms trade

Scout's honour

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BAE, its reputation tarnished, promises to behave better

STABLE doors are seldom slammed shut by so eminent a group as that chaired by Lord Woolf, a former chief justice, to scrutinise the ethics of Britain's biggest defence firm, BAE Systems. His committee included Doug Daft, a former chief executive of Coca-Cola, and Sir David Walker, a City grandee. It was established by the company a year ago in a bid to clean up a reputation tarnished by allegations that its longstanding arms deal with Saudi Arabia, worth £43 billion ($85 billion), involved the payment of bribes.

After interviewing scores of people and pondering the matter for a year the wise men (and woman), who were asked to examine only the firm's current procedures and not its past conduct, have produced an array of recommendations for better behaviour. These include getting the board of directors to pay more attention to which countries are buying the company's weapons and for BAE to avoid hiring “agents” or “advisers” unless absolutely necessary. The firm should also steer especially clear of advisers who are “recommended by a government official” or who whisper about fat commissions, cash payments or numbered bank accounts.

Although many of these measures may be commonplace in other businesses, they represent “a gold standard in ethical conduct” that may force the firm to turn away business, says Lord Woolf. And although BAE maintains it never broke the law, it now acknowledges that it paid insufficient attention to ethics in the past and says it will carry out all the recommendations.

The government also has a crucial role to play. The committee urged it to rewrite its outdated laws against bribery, whose deficiencies have become manifest in recent years. The Law Commission points out that English law on the subject is so riddled with inconsistencies and ambiguities that, for instance, foreigners living in Britain can get away with bribing other foreigners, so long as they do not do it in England or Wales.

More important, it was under intense government pressure that the Serious Fraud Office (SFO) cut short its probe into BAE's Saudi deal in December 2006, just as investigators started to circle the Swiss bank accounts of Saudi officials connected with it. Ministers defended their controversial intervention by saying that Saudi Arabia might otherwise cut off the flow of anti-terrorist intelligence. But the High Court last month deemed the decision flawed and ordered the SFO to reopen the investigation. It is appealing against the judgment.

An independent investigation of the company's past dealings may now be essential to lift the cloud of suspicion that still hangs over it. Dick Olver, BAE's chairman, acknowledged as much on May 7th when he called for a review of the SFO's evidence—a remarkable change of heart from a firm that had previously lobbied the government in secret to drop the probe.

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Immigration clampdown

Of stable lads and ballet dancers

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The professions that could slip through the points-based system

CANTERING through the Berkshire countryside, the four racehorses could hardly look more English. It might not be surprising in these globalised times that Kingwood House Stables in Lambourn, where Derby winners have been trained, is owned by an Arab sheikh. But the labour, too, is foreign: Slim, a young rider teaching his horse the ropes, is Indian. His colleagues include Brazilians and Pakistanis; nearby stables employ Filipinos and Mauritians. Nearly a third of Britain's “work riders”, the brave souls who take young horses on practice gallops, come from outside Europe. They have to: trainers can no longer find enough young Britons willing to start work at 5am on Sundays. And size is a problem: riders cannot be much over nine stone (57kg) and 90% of British men are too heavy.

Slender and hard-working, immigrants are loved by business. But voters are less content. Since 2004 half a million east Europeans have settled in Britain, competing with natives for low-skilled jobs and putting pressure on public services in some towns. The government cannot do much about it because most Europeans are entitled to work where they like. So crowd-pleasing cuts must be made instead to migrant workers from outside Europe.

On May 6th the government published details of how, come the autumn, it will decide who is allowed in. Proficiency in English will be compulsory; after that, would-be migrants will be awarded points for their qualifications and prospective salaries. Only the highest-skilled and best-paid will be let in. The Home Office reckons that if it had used the new system last year, some 7,900 fewer skilled workers from outside Europe (plus their 3,900 dependants) would have made it—a fall of more than 12%.

Because the system demands proof of qualifications, the losers will include those who, like Slim the horse-rider, have rare skills but lack formal certificates to prove it. “They don't do qualifications in racehorse care and management in India and the Philippines,” laments Rupert Arnold, head of the National Trainers Federation. Ballet dancers tend not to have degrees either, which coupled with lowish entry-level pay means they too will hit problems with immigration. “If we need to get 50 points, we will struggle,” says Lynn Colledge of the Birmingham Royal Ballet, 30% of whose dancers come from outside Europe.

The government hopes the new system will force employers to hire Britons instead, but in some cases the supply is not there. Horse-trainers have offered gentler hours, higher pay and more generous weight limits, to no avail. The Birmingham Royal Ballet tries to recruit from British ballet schools—but many of those students are themselves foreigners. The government has realised that some sectors will fall outside the points system in this way, so it has appointed a panel of economists to draw up a list of occupations that will be allowed to skip it. This advisory committee will publish its list in June.

The panel's guidelines to employers say that to get on the list, they must show they have exhausted other options: attracting British workers with cushier conditions; mechanisation; offshoring; even changing their product. “This is likely to have consequences for the level of employment, prices and/or profitability of their business,” acknowledge the committee's guidelines. In some cases, industries will be allowed to decline. “It has been quite sobering,” admits Diane Coyle, a member of the panel.

What is still not clear—and what the boffins themselves have not yet decided—is how badly an industry ought to suffer before it is allowed to import the workers it needs. How ropey and expensive should the national ballet be allowed to become for the sake of employing British dancers? And how many Chinese take-aways ought to be allowed to close before they are allowed to import chefs?

The difficulties of employers that depend on immigrant workers may have more of an impact when it becomes apparent how many industries are likely to be affected. Henry Brosi, a London chef, predicts big problems if his cooks don't make it onto the panel's list. “About 40% of my staff are from outside Europe.

When we advertise a job, six out of 10 applications are from India," he says. So what if a few ethnic take-aways go out of business, some may retort. Perhaps, but the problems go beyond Chinatown: Mr Brosi is executive chef at the Dorchester.

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Medical training

Dead on arrival

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From The Economist print edition

An autopsy on a scheme for training doctors bodes ill for future health plans

Illustration by David Simonds

THE relationship between doctors and bureaucrats is more often than not a fractious one. A highly educated and fiercely independent profession tends to resent attempts by mere civilians to screw down costs, manage performance or dictate treatment. But the fiasco that ensued in 2007 when the health department tried to change the way junior doctors applied for further training and progressed in their careers was in a class of its own. On May 8th, a committee of MPs published an inquest into the mess. Not just a routine post-mortem, the report is a cautionary tale for Labour's other grandiose plans to reorganise the National Health Service.

The Medical Training Application Service (MTAS), a website through which newly qualified doctors had to apply to train to be specialists, was launched in January 2007, and abandoned just three months later. In between, its short life was nothing more than a slow-motion collapse, marked by technical hitches, security breaches, legal challenges, demonstrations by junior doctors, emergency ministerial statements and high-profile resignations. It caused “the biggest crisis within the medical profession in a generation”, according to a health-department report; it was a “deeply damaging episode for British medicine”, concluded a subsequent independent review.

In their own report, the MPs list not one cause of death for MTAS, but many. Right at the top was the standardised web-based application form, scored in a way that gave little weight to applicants' qualifications, publications or other verifiable achievements. Instead, interviewees were selected on the basis of 150-word mini-essays on such fatuities as communication skills, demonstrating leadership and the like. The result, say the MPs on the parliamentary health committee, was that the process descended into “little more than a creative-writing exercise”.

There were an alarming number of other failings. Inadequate risk monitoring meant the health department went through a number of warning signals that were flashing red. An unrealistic timescale probably contributed to security breaches, in which applicants' details were made public. The department's leadership was “totally inadequate”, and its implementation “inept”. For example, setting a single yearly start date of August 1st for all new jobs meant that hospitals had to cope with a nationwide migration of junior doctors: chaos ensued. The Chief Medical Officer's protests that he was not responsible for this all-too-predictable fiasco were “weak and unconvincing”.

Meanwhile, an attempt to restrict candidates from overseas compounded the disaster. The government's decision, early in its first term, to reduce the NHS's longstanding dependence on doctors trained abroad meant increasing the number of graduates from British medical schools. In order to ensure the young British doctors would have jobs to go to, the health department told NHS employers to offer training posts to non-Europeans only if no suitable locals were interested.

However, a legal challenge in 2007 from a group representing Indian doctors meant that the guidance had to be rescinded. In the event, more than 10,000 overseas doctors applied under MTAS. Their unexpected entries turned what was designed as a low-key match-making service for roughly similar numbers of applicants and jobs into an intensely competitive game of musical chairs.

The department's policy was ruled unlawful last November, meaning that although the government appealed against the judgment, it was once more unable to implement it in 2008. And on April 30th the appeal was rejected by the House of Lords, sending the department back to the drawing board.

The last rites may have been administered for this particular project, but many of the failings identified by the MPs are likely to endanger other NHS schemes. A hugely ambitious plan to put all patients' records on a single database likewise combines grandiose vision and an implicit faith in information technology. The project is behind schedule and over budget.

The biggest unknown, though, is the review of the health service currently being carried out by Lord Darzi, a surgeon and junior minister. His report, due within weeks, may recommend a reorganisation of the entire NHS, with much care shifted from hospitals and GPs' surgeries to “polyclinics”, a kind of half-way house between the two. Further disturbing autopsy reports may be on the way.

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Cannabis and the law

It wasn't like this in my day

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The government stiffens the law on dope—against official advice

PERHAPS they are too stoned to notice, but cannabis users do not seem to pay much attention to changes in the law regarding their beloved weed. When the government last tinkered with the law in 2003, downgrading dope's seriousness, many feared an increase in consumption. Instead, the prevalence of occasional smoking among young people has since fallen, from 25% to 21%.

Following that apparent success, the government has now decided to reverse the decision. On May 7th Jacqui Smith, the home secretary, announced that cannabis would be upgraded from a class C drug—the mildest type—to class B, putting it in the same company as amphetamines. Earlier that day the Advisory Council on the Misuse of Drugs (ACMD), an official body of academics, social workers, policemen and other drugs experts, had recommended she leave it alone. Ms Smith said the public supported her in taking a tough line and claimed that strong new strains of cannabis presented a risk to mental health.

Both those claims are half-true. The ACMD found that 58% of people thought that dope should be bumped up to class B or above. But those people also had liberal views on how drug users should be treated: 68% thought that the maximum penalty should be two years or less in jail—which is, in fact, the current limit for a class C drug. (The top penalty for class B drugs is five years.) So in ramping cannabis up to class B, Ms Smith does have the support of the public—but only because they don't know what it actually entails.

The medical evidence is mixed. The big worry is that pot-smokers are more likely to develop schizophrenia—hard to prove either way, since it tends to kick in during the late teens and early twenties, when cannabis is also most popular. It is also hard to pin down the direction of causation: if pot smokers are more likely than others to go off the rails, it may indicate that their vulnerability is what makes them more likely to take up the habit.

The ACMD found that there was a “probable but weak” association between cannabis use and the development of psychotic illness. It cited a recent study in the *Lancet*, a medical journal, which suggested that frequent users were twice as likely to develop psychotic disorders than those who steered clear. If true, this would mean that to prevent one case of schizophrenia in young men, about 5,000 would have to be kept away from cannabis.

Reformed pot-smokers, including several in the cabinet, argue that the market is now dominated by a variety that is much stronger than the type that was common in Ms Smith's day. If the stronger stuff is indeed to blame, the government should have a word with the coastguards. Customs have become rather good at intercepting shipments of gentle, herbal cannabis from north Africa, so dealers have started their own growing operations in Britain, where they cultivate the strong variety. This is hardly surprising: when alcohol was outlawed in America, illicit brewers tended to make hard liquor rather than wasting their time with beer. Now as then, the move towards the harder end of the market is a consequence of prohibition.

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Bagehot

The final triumph

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How electoral disaster disguises New Labour's ultimate victory

Illustration by Steve O'Brien

POLITICAL obituaries are often written prematurely. Unlike ordinary ones, they tend to exaggerate failures and gloss over success: sacked ministers are “disgraced”, defeated leaders irredeemable losers. Responses to Gordon Brown's humiliation in the local and London elections on May 1st have evinced both the hastiness and the hyperbole. Some commentators have excitably heralded the results as certain evidence not only of the prime minister's inevitable defenestration, at a general election or sooner, but also as a conclusive popular rejection of New Labour and all its works.

On the second point, at least, the excitable commentators are already wrong. The big electoral tent that New Labour built may have collapsed, but many of its intellectual pillars are still standing. Indeed, the revival of the Conservatives under David Cameron arguably represents the project's final triumph.

High flattery, cold comforts

The basic New Labour insight was that Britons cared about both economic efficiency and fairness, and could be persuaded that they were not irreconcilable. Mr Cameron is now making the same dual offer, with several of the original ramifications.

Take the Tories' noisy vows to ameliorate poverty. Relying on voters' obliging amnesia, Mr Cameron is characterising the now-crucial parliamentary by-election in Crewe and Nantwich on May 22nd as a referendum on Mr Brown's decision to abolish the 10% tax band—a ruse that has left several million low-income households worse off and many Labour MPs mutinous. In other words, the party that opposed the establishment of the minimum wage and much of Mr Brown's tacit redistribution now has the chutzpah to present itself as the champion of the poor, and even as the avenger of inequality. Eleven years of New Labour has made compassion compulsory.

Second, the National Health Service. Tony Blair may have been slow to realise how badly it needed to change; there may be too little improvement to show for the money he and Mr Brown have thrown at it. But they have nevertheless entrenched a consensus in favour of a universal, taxpayer-funded health service. When Mr Cameron insouciantly outlined his priorities for government on May 6th, he expressly ruled out an overhaul of the NHS. Yet it is not all that long since the Tories proposed to subsidise private-health insurance through tax breaks. Meanwhile, across the public services, the Tories have swallowed the Blairite recipe of “investment plus reform”.

Then there is the whole fuzzy but symbolic sphere of diversity and tolerance. Though it seems like an

aeon ago, it is actually only a few years since the Tories pigheadedly opposed the repeal of Section 28, an antiquated piece of legislation widely regarded as homophobic. It isn't much longer since some Tory activists openly resented the selection of black parliamentary candidates. Senior Conservatives themselves now acknowledge that New Labour has presided over a happy maturation of social attitudes, to which reforms such as the introduction of civil partnerships for gay couples have contributed. Now Mr Cameron actively promotes female and black candidates, and metro-sexuality abounds on his front bench.

Finally there is the way Mr Cameron conducts his politics. Voters of modest means may not be entirely persuaded by his talk of feeling the pinch when he fills up his car in the Cotswolds. But, after New Labour and Mr Blair, he has to do it: to emote, to act—to do politics in his shirtsleeves. One of Mr Brown's problems is that he can't, not really. It isn't only the despair of the low earners he somehow seems unable to empathise with—it's the hope of the middle classes too. (Pressed to admit his failings, Mr Brown sometimes sounds like a faux-modest candidate in a job interview, who claims his main fault is working too hard.) With the touchy-feeliness, Mr Cameron has emulated the can-do idealism that New Labour once honed. A recent pamphlet by two leading Tories, which tried to claim the adjective “progressive” for their party, cheekily epitomised the mood.

There is still quite a lot in Mr Cameron's platform—Euroscepticism and support for marriage through the tax system, for example—that is viscerally Tory. There is quite a lot about it that remains opaque. But it is striking that the main arithmetical conundrum Mr Cameron needs to explain is where he will find the money to fund his various spending pledges, rather than which public services he will slash to finance putative tax cuts. “The next election”, says one frank senior Conservative, “will be won by whoever is most New Labour.”

Following the New Democrats in America, New Labour itself, of course, energetically cross-dressed in the 1990s. Mr Cameron's manoeuvre on poverty is an eerie echo of Mr Blair's drive, before and after he became Labour leader in 1994, to make the core Tory issue of crime his own. Mr Blair and Mr Brown also bowed to the basic precepts of Thatcherite economics (privatisation, a flexible labour market and so on). That safeguarded those policies—but helped to thrust the Conservatives themselves into a confused, protracted purgatory.

There are lots of reasons why Mr Brown may be leading his party towards a similar limbo: bad economic luck; shoddy prime-ministerial judgment; the discombobulation that any tribe is liable to suffer when a long-term leader departs; sheer exhaustion. But one of them is that New Labour has in part succeeded. Because the government now seems intellectually bereft, the hyperbolists have forgotten the ideas it did once have. Some of them were too powerful for the Tories to resist, and have evolved, as good ideas tend to, into indispensable orthodoxies. It is unlikely to be much comfort to Mr Brown, but buried within his own fall is the last, pyrrhic victory of the political movement he helped to create.

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Economist.com WORLD INTERNATIONAL

Food prices and protest

Taking the strain

May 8th 2008 | BANGKOK, CAIRO AND ROME
From The Economist print edition

AP

The political fallout from the rising cost of food has been manageable—so far

WHEN Haiti's prime minister resigned last month after a week of food riots, it seemed to confirm a warning that Bob Zoellick, the president of the World Bank, had given ten days before. He said 100m people were being pushed into hunger and malnutrition—and 30-odd countries faced social upheaval unless food policy improved and the rich world got its act together to help. A month on, policy has not improved, and the rich world's response has mostly been muddled—yet surprisingly, poor countries have been able to contain the unrest, albeit at heavy cost.

Simon Maxwell, head of Britain's Overseas Development Institute, a think-tank, says one problem is that donors need a single, simple guide on how and where to help, not a clamour of competing United Nations bureaucracies with different plans. There are moves in this direction. The first priority has been to finance the World Food Programme (WFP), the world's largest distributor of food aid, which has been as hard hit by food inflation as any slum-dweller. The WFP asked for $750m this year and has so far got about two-thirds of that.

The UN is also trying to make the international response more coherent. Ban Ki-moon, its secretary-general, has set up a task-force to co-ordinate what the UN agencies are doing and has called a food summit in early June to work out a plan. So far, so good. One unfortunate signal has been sent: the task-force is being run by Sir John Holmes, a British diplomat who is the UN's co-ordinator for Humanitarian Affairs and Emergency Relief. This makes the food crisis look like a short-term, emergency problem, which it isn't—or at any rate, it's not only that.

More worryingly, the crisis has set off a round of bickering over the UN's standing food bureaucracy. Criticism has long been swirling round the largest agency, the Food and Agriculture Organisation (FAO), a body that provides information and technical expertise. On May 4th Senegal's president, Abdoulaye Wade, brought this into the open by calling the FAO a “bottomless pit of money largely spent on its own functioning”. He proposed scrapping it, and incorporating it into another Rome-based UN agency, the International Fund for Agricultural Development (IFAD), which would be moved to Africa.

There is a local element to Mr Wade's strictures: the FAO's director-general, Jacques Diouf, is also Senegalese, and he might one day be a presidential challenger. But Mr Wade's words reflected real discontent with the FAO. An independent evaluation last year damned it for its “heavy and costly

bureaucracy". Merging all three Rome-based agencies (the WFP is there, too) would probably reduce management costs and turf warfare. But it could also stir up a hornets' nest of discontent, and it is not clear that bureaucratic infighting would make the world's response to higher food prices any more coherent.

To be fair, rich countries are already managing to be fairly incoherent without any UN infighting. The hope, at least among economists, was that higher prices would induce rich countries to cut state aid to farmers and—says Paul Collier, a development expert at Oxford University—"lead people to question their pleasant fantasies about GM [genetically-modified] food in Europe and biofuels in America." So far, there are few signs of that.

True, a group of Republican senators has proposed easing legal requirements to increase the amount of ethanol used in fuel. The British government says it will be "selective" in supporting biofuels. But policy changes are thin on the ground. The current American farm bill proposes only modest cuts in ethanol subsidies. The EU has not changed its biofuels target (10% of all fuel by 2020); it continues to bully developing countries not to plant GM crops and this week refused permission to grow varieties of GM maize and GM potatoes in Europe, passing the products along to the EU's food standards agency for more tests.

While donors squabble, poor countries face riots. But so far, these have had less political impact than many expected. Around 30 countries have suffered protests but only Haiti has seen its government fall. In the Middle East, the part of the world most dependent on food imports, there have been demonstrations and strikes in Egypt, Morocco and Jordan. But all three countries withstood more serious food riots in the late 1970s and 1980s.

In some of the poorest countries, rising food prices have been causing less distress than might have been expected because benefits have also appeared. In Bangladesh, one of the most vulnerable countries, the rice crop is up 10%, prices are about four times production costs and wages for landless peasants are soaring.

Bangladesh has a lot of rural poverty. In countries with millions of urban poor, governments have so far survived demonstrations in part because they are seen to be reacting, whether by issuing ration cards (Egypt and Pakistan) or setting up and expanding social-protection programmes (this is happening almost everywhere, even America). Sometimes, admittedly, reactions are fairly daft. Thailand proposed an OPEC-style cartel for rice, an idea that went nowhere. Many food exporters have gone for beggar-thy-neighbour trade restrictions. Each time one limits or bans food exports, it pushes up world prices—and other governments, equally anxious to keep food inside the country, follow suit. About 30 countries have imposed some form of trade restraint.

Food importers don't have the luxury of making such mistakes. They are buying time by, for example, boosting food subsidies or hiking wages. In Egypt, bread used to be about a fifth of the world price; now it is less than a tenth. Several Arab states have decreed hefty pay rises: 25% for public-sector workers in Syria, 30% in Egypt.

These policies are inflationary and expensive. Oil exporters, or countries like Egypt that benefit from big remittances from them may be able to afford them for a while. Others are not so lucky. In Indonesia, where half the population lives on less than $2 a day, inflation is 9% and food prices are soaring (the price of subsidised rice to the poor was jacked up 60% in April). The government is planning to fuel subsidies, which would make social protection and subsidised rice more affordable. The response: more protests.

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Economist.com WORLD INTERNATIONAL

Media freedom

Hacks v beaks

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Rich people and bad laws mean tough times for free speech

Illustration by Claudio Munoz

WHEN writing about litigious issues, big British newspapers favour phrases such as “he strenuously denies all wrong-doing” (possible translation: has no convincing explanation of his behaviour); “has failed to dispel speculation that...” (was scandalously involved in), as well as words like “controversial” (outrageous) and “murky” (corrupt).

Such expensively lawyered prose helps present a semblance of balance that usually protects editors against the severity of English libel law. A good lawyer might in any event have cautioned the *Kyiv Post*, an English-language newspaper in the Ukrainian capital, not to headline a column about municipal property deals with “Appalling Kyiv City Council Land Grab”. And he would certainly have demanded a thorough fact check before drawing a comparison with tactics used in other dealings by Rinat Akhmetov, one of the richest men in the country.

That would have been wise, for Mr Akhmetov reacted to errors in the article by suing the paper not in Ukraine but in London, using the city's most fearsome defamation lawyers, Schillings. The paper published an apology on February 21st.

To many people, the striking aspect of this was not its effect on Mr Akhmetov's standing but the fact that a Ukrainian tycoon was suing a Ukrainian paper (owned by an American) in London. Even the *Kyiv Post*'s 100 subscribers in Britain give an English court the right to hear the case.

That followed a similar judgment last year against Rachel Ehrenfeld, a New York-based American author who has written about the support of some Saudis for Islamist terrorism. She was successfully sued in London by a Saudi for a book she had published in America that had sold only a handful of copies in Britain.

Even more striking was a second victory won by Mr Akhmetov earlier this year, against *Obozrevatel* (Observer), an internet news site that does not even publish in English. Like Ms Ehrenfeld, the defendants did not appear in court and judgment was entered against them in default. Damages will be set in a compensation hearing later this year. Schillings declined to comment, but a statement on its website reads: “By seeking redress in the courts of England, Mr Akhmetov will ensure that there will be a fair legal process.”

Perhaps. But for those used to the defence of free speech entrenched in America's First Amendment, English law seems anything but fair. It is not just that defending a libel action costs the equivalent of $200,000-plus up front, and much more if you lose. The plaintiff has to prove only that a statement was defamatory; it is up to the defendant to justify it, usually on grounds of truth or fairness.

The growing use of English courts by foreign litigants is arousing increasing concern among free-speech campaigners such as Chris Walker of Freedom House, an American lobby group. He terms it “manna from heaven for deeply illiberal and fantastically wealthy ex-Soviet oligarchs and Middle-Eastern oil tycoons. Everyone knows the potency of the English laws and everyone takes it into account, at an incalculable cost to free speech.”

Yet given the reputation of English courts, and long-standing rules in other countries about recognition of their judgments, it is hard to find a legal counter-attack. In response to the Ehrenfeld case, the state of New York last month passed the “Libel Terrorism Protection Act”, which explicitly protects residents'

assets against foreign defamation judgments. But that is little comfort to other Americans and is likely to face legal challenges.

Some English judges have been worrying privately about the potential for abuse, and foreign litigants in future may face tougher scrutiny, particularly in actions against publishers with little presence in Britain. But litigants are also becoming more sophisticated. When a British tabloid, the *News of the World*, published a story about Max Mosley, a motor-racing administrator, he turned (unsuccessfully as it happened) to a court in France, which has strict privacy laws, to make the paper remove from its website a video which purported to show him engaged in sado-masochistic sex acts. Mark Stephens, a London lawyer, says “libel tourism” is giving way to “libel and privacy cruises”, where people are seeking the most favourable jurisdiction they can find.

Courts further afield may be even harsher and less predictable. *Time* magazine is appealing against a recent Indonesian Supreme Court judgment that ordered it to pay one trillion rupiah ($100m-plus) to the family of the late President Suharto, whom it accused of corruption in 1999. (This newspaper is one of a score of *amici curiae* petitioning for review of the verdict.) In English law, dead men can't sue. But (to be safe): Mr Suharto vehemently protested his innocence.

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Russia's oil industry

Trouble in the pipeline

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Reuters

Despite booming demand and record prices, Russia's oil industry faces problems

WHEN the price of oil reached another record on May 6th, of over $122 a barrel, analysts pointed to attacks on pipelines in Nigeria and turmoil in Iraq as the immediate causes. Even small disruptions to supplies from such places can cause the price to jump, since only Saudi Arabia has the capacity to replace the lost production, and it does not seem inclined to do so. But to understand how supplies became so scarce in the first place, one must look at the state of the oil industry in Russia, the world's second-biggest producer.

Over the past seven years, according to Citibank, Russia accounted for 80% of the growth in oil production outside the Organisation of the Petroleum Exporting Countries. The increase in its output in the early part of the decade matched the growth in demand from China and India almost barrel for barrel. Yet in April, production fell for the fourth month in a row. It is now over 2% below the peak of 9.9m barrels a day (b/d) reached in October last year. Before that, the growth in Russia's output had been slowing steadily, suggesting that the drop is not a blip. Leonid Fedun, a vice-president of Lukoil, a local oil firm, says Russia's production will never top 10m b/d. The discovery that Russia can no longer be relied upon to cater to the world's ever-increasing appetite for oil is naturally helping to propel prices to record levels.

Oil and gas have been the foundation of the regime of Vladimir Putin, Russia's outgoing president, and are also a preoccupation of his successor, Dmitry Medvedev, who was chairman of Gazprom, the state-controlled gas giant. The flow of petrodollars has created a sense of stability, masked economic woes and given Russia more clout on the world stage. Yet the malaise afflicting its most important industry is almost entirely man-made. “Geologically, there is no problem,” says Anisa Redman, an analyst at HSBC, a bank.

In principle, Russia's bonanza could continue for years: it has the world's seventh-biggest oil reserves, at 80 billion barrels, according to BP, a British oil firm. And oilmen reckon there are 100 billion more barrels to find—“the biggest exploration prize in the world”, in the words of Robert Dudley, the boss of TNK-BP, BP's Russian joint venture. But Russia has regulated the industry so poorly that production is falling despite the soaring oil price.

“Tax is the major impediment,” says Ms Redman. The government levies an export duty of 65% at prices over $25 a barrel. Add to that various corporate, payroll and production taxes, oilmen complain, and the state creams off as much as 92% of profits. Executives at TNK-BP have argued that rising costs across the oil industry will make many investments in Russia unprofitable unless the tax regime is changed. As

it is, TNK-BP accounts for a fifth of BP's production, but only a tenth of its profits.

The government does offer tax breaks on production from older fields. So oil firms, naturally, have been concentrating on squeezing as much oil as they can out of those. Until recently, that was an obvious priority anyway, since fields that had fallen into ruin after the collapse of the Soviet Union in the early 1990s could be revived relatively easily and cheaply. By mapping existing fields more precisely, installing new pumps and injecting water and chemicals into wells to maintain pressure, private oil firms were able to raise Russia's production from 6m b/d to almost 10m b/d, mainly from western Siberia. In 2003 alone, output jumped by 12%.

But this strategy is now yielding diminishing returns. Mr Fedun says the western Siberian fields have reached their natural limit. To keep production at today's levels requires ever more investment. To get Russia's output growing again, firms must make huge investments to develop new fields in remote provinces such as eastern Siberia and the Sakhalin region.

There has been some growth in these areas, mainly thanks to the less heavily taxed projects, called “production-sharing agreements”, that the government offered briefly in the late 1990s but has since curtailed. Strip out the production from these projects, and Russia's output has been in fitful decline since August 2006, according to analysts at Citibank. Worse, the output from these projects declined last month too. The government's ill concealed expropriation of various prize assets over the past few years has only added to the reluctance to embark upon big new projects.

Lukoil, for example, is investing $10 billion a year, but roughly 30% of that goes into gas production, which is now more lucrative than oil, given rising domestic prices for gas and lower taxation, says Mr Fedun. It has also been investing in refining, since the export tax on petrol and diesel is lower than that on crude oil. It is still projecting 4% annual growth in its output over the next 15 years, but the figure would be much higher if the government eased the tax burden, says Mr Fedun. Rosneft, the state-controlled oil champion, took on so much debt buying the plum divisions of Yukos, a private firm bankrupted by the Kremlin's zealous tax collectors, that it has little leeway for expensive new projects. Other firms are hoarding their profits and waiting for the tax regime to change.

The government did provide some $4.5 billion in tax breaks last year. But this, the oil companies argue, is barely enough to keep production stable. In his inaugural speech to the Duma as prime minister on May 8th, Mr Putin said that taxes on the industry must be reduced. However, new fields can take a decade to develop. The Kremlin has also failed to hand out exploration rights in the Arctic—the region oilmen consider most promising. And it says that in future the foreign firms with the expertise to tap offshore fields beneath frozen seas will be limited to minority shareholdings in big projects. “Oil production will be whatever the government decides it to be,” says Mr Fedun.

Meanwhile, Russia today is more dependent on oil and gas than it has ever been, argues Chris Weafer, a long-time Russia watcher and chief strategist at Uralsib, a bank. The share of oil and gas in Russia's gross domestic product has more than doubled since 1999 and now stands at above 30%, according to the Institute of Economic Analysis, a think-tank. Oil and gas account for 50% of Russian budget revenues and 65% of its exports. Yet the government has put at risk the goose that lays these golden eggs.

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Microsoft and Yahoo!

No deal

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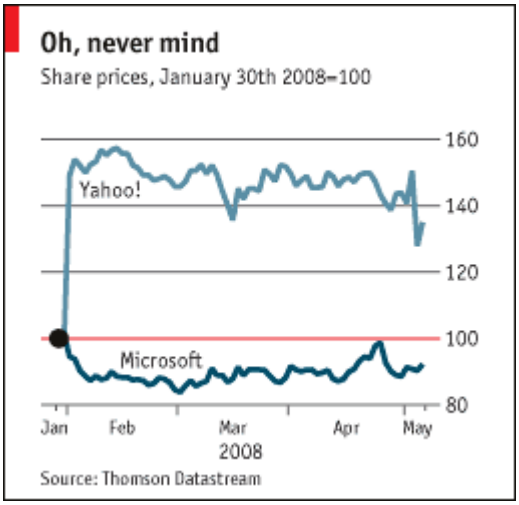
Microsoft walks away from Yahoo!, and both companies lose



RATHER as John McCain cannot be displeased to have seen Hillary Clinton and Barack Obama fighting it out, Google has for the past three months enjoyed watching its only two serious rivals, Yahoo! and Microsoft, tear each other to pieces. Yahoo!, once an internet pioneer, has fallen far behind Google in web search and related advertising. Microsoft still dominates desktop computing but lags behind Google as software moves online. So Steve Ballmer, Microsoft's boss, dared ask Yahoo!: what would be wrong with making, if not exactly a dream team, at least a joint effort out of it?

But on May 3rd, after a frustrating marathon of meetings, Mr Ballmer walked away. He had raised his offer for Yahoo! from an initial $44.6 billion on January 31st to about $47.5 billion, some 70% more than Yahoo!'s value at the time of the opening bid. Jerry Yang, Yahoo!'s co-founder and boss, wanted at least $5 billion more. Mr Ballmer wrote him a bitter letter saying that “you and your stockholders have left significant value on the table.” Wall Street's verdict, on May 5th, was to cut Yahoo!'s value to $34 billion.

That the sell-off was not even worse primarily reflects the possibility that a deal may yet happen. Another software company, Oracle, recently dropped a bid for a smaller rival, BEA Systems, after its board rejected the offer, but eventually had its way after BEA's angry shareholders forced their board back into negotiations and a sale. Mr Ballmer's farewell letter to Yahoo!, by recapitulating the negotiations in all their embarrassing detail, provides just the sort of fodder for Yahoo!'s investors to order Mr Yang to resume talks.

Mr Ballmer took particular pains to criticise Yahoo!'s readiness to “make Yahoo! undesirable as an acquisition for Microsoft.” By this he means Mr Yang's apparent plan to outsource Yahoo!'s search-advertising technology to, of all people, Google. In a purely mathematical sense, this could indeed make Yahoo! somewhat more valuable. Google is better than Yahoo! or Microsoft at placing relevant ads next to search results and collects more in revenue for each resulting mouse click.

Yet it is a bizarre tactic. The history of Yahoo! during this decade is of trying, failing, and trying again to catch up with Google in search advertising. Its first big failure was not to bid high enough to buy Google outright. Its next attempt, in 2003, was to buy Overture, the company that pioneered search advertising, but by then Google was pulling ahead. An outsourcing deal with Google was considered and rejected. For the past two years Yahoo! has invested oodles in a project called Panama that was meant, again, to catch Google.

Presumably Yahoo! has been exerting itself so because it believes that the advertising technology is, along with search, the source of competitive advantage in the internet era. That is certainly what Microsoft believes, which is why it bought aQuantive, an online-advertising specialist, and built its own search-ads platform, called adCenter. What Yahoo! and Microsoft lack is volume—in the number of both searches and advertisers bidding to place ads. Teaming up would help to address that problem; but a capitulation by Yahoo! to Google would merely invite antitrust regulators to look at Google's dominance.

Mr Yang could merge Yahoo! with AOL, the web portal of Time Warner, but AOL already outsources its search ads to Google and would be no help at all in catching the leader. Asserting, as Mr Yang does, that Yahoo! all by itself could become “the starting point” on the internet, and its advertising powerhouse, rings hollow.

Things look just as bleak for Mr Ballmer. He has invested billions trying to make Microsoft an internet and advertising superpower. But it seems not to matter. According to Danny Sullivan, a web-search analyst, Microsoft “literally has no brand” when it comes to its online services—nobody has ever been advised “to Live” or “to MSN” a recipe or a cute classmate. The only one having any fun continues to be Google.

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Mobile telecoms

Calling across the Indian Ocean

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India's biggest mobile-phone operator wants to buy Africa's

THE first Indian company to venture overseas chose Africa as its destination, setting up a textile mill in Ethiopia in the 1950s that eventually claimed half the market. But no Indian company has ever contemplated something as bold as the potential bid by Bharti Airtel, the biggest mobile-phone operator in India, for South Africa's MTN, the biggest in Africa.

According to the *Financial Times*, Bharti has indicated it would pay 160 rand ($21.25) a share for a 51% stake in the South African multinational. Such a purchase, amounting to about $19 billion, would be the heftiest overseas acquisition ever made by an Indian firm, dwarfing the $11.3 billion that Tata Steel paid for Corus, an Anglo-Dutch steelmaker, in 2007. It would also be more than seven times the amount India invested directly in the whole of Africa from 1995 to 2004.

But no deal had been announced as *The Economist* went to press. Both parties were keen to stress that the talks were at an “early”, “exploratory” stage. Bharti has arranged only $12 billion of the money it would need; raising the rest would probably require the sale of more shares. And it is not the only potential bidder. MTN's shareholders may therefore flutter their eyelashes and sit on their hands, waiting for better offers from elsewhere.

If anything, Bharti would be marrying up. MTN boasts more mobile subscribers (68m to Bharti's 62m), a broader geographic reach (it has customers in 21 countries, including over 9m in Iran and almost 1.5m in Afghanistan) and higher profits: $4.5 billion in 2007, before interest, taxes and depreciation, compared with Bharti's $2.8 billion in the year to March 2008. Bharti's stockmarket value is greater, but the gap narrowed after Bharti's share price fell, and MTN's rose to a record high, in response to news of the talks.

These numbers do not intimidate Bharti, which has the confidence and clout of a company that is taking part in an economic miracle. India added over 10m mobile-phone subscribers in March alone, taking it past America (by some estimates) to become the second-biggest mobile market in the world. Bharti itself signed up 6.8m subscribers in the first three months of this year. It has sustained its profit margins (before interest, taxes and depreciation) of over 40% even as it offers calls for as little as one rupee ($0.02) per minute.

It also believes it has learnt some tricks that would work wonders in Africa. In both places, less than a third of the population owns a mobile phone, and monthly “average revenue per user”, a key industry measure, can be low. Bharti collects an average of 357 rupees ($8.80) per user in India; MTN's figure varies from $24 in Congo-Brazzaville to about $8 in Sudan.

To succeed in these markets, a firm must sign up subscribers cheaply and quickly, making money on small upfront payments for a few minutes of calls at a time. This is precisely Bharti's speciality. “They know which tricks work,” says Madhudusan Gupta of Gartner, a research firm, “and they are very strong with their marketing gimmicks.”

Flush with this domestic success, Bharti has for years harboured international ambitions that extend far beyond its modest ventures in the Seychelles, Guernsey and Jersey. It is one of a new breed of Indian firm that is “graduating to globalisation”, to cite the phrase of Dilek Demirbas, Ila Patnaik and Ajay Shah, three economists who have studied the phenomenon.

As India has opened its domestic markets, some of its bigger companies, steeled by competition at home, have become productive enough to succeed abroad. From negligible amounts five years ago, India's outbound foreign-direct investment was $13.6 billion in 2007. Its stock of investments is remarkably cosmopolitan and was sprinkled across 127 countries in 2006, according to Jaya Prakash Pradhan of the Institute for Studies in Industrial Development in New Delhi.

Buying MTN would allow Bharti to realise its international ambitions in full measure. But an outright takeover may prove too expensive. Perhaps its talks will therefore explore other, cheaper options: a merger, for example, or a joint venture. The mobile phone has become the signature technology of the developing world. A multinational operator from the emerging markets, for the emerging markets, has an undeniable appeal. But given that MTN's shares are already trading at 160 rand, an offer at that price probably will not be appealing enough.

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Electric vehicles

Charge!

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Renault-Nissan's ambitious plans for all-electric cars

COMMITMENT is one of Carlos Ghosn's favourite words. He makes commitments himself and he expects his senior managers in the Renault-Nissan alliance to do the same. His latest, and one of his boldest, is that Renault and Nissan will lead the car industry in developing profitable zero-emission vehicles.

In recent months Renault-Nissan has teamed up with Project Better Place, a Silicon Valley start-up, to introduce all-electric vehicles and a network of charging points in Israel and Denmark by 2011. Now Nissan is going further. Speaking at a media event in Portugal this week, Mr Ghosn said that the time for the mass-market zero-emission car has come. Nissan plans to launch a battery-powered car in America in 2010 and by 2012 the Renault-Nissan alliance will offer a complete range of electric vehicles in every large car-market. And these new battery-powered cars, it claims, will work out less expensive than equivalent petrol models.

Renault-Nissan's new electric-vehicle strategy is, says Mr Ghosn, the culmination of two years' work. It is the product not just of rising fuel prices and the prospect of new emissions rules, but the frightening environmental implications of rapid growth in emerging markets. At the Beijing motor show in April, he observed that “nothing can stop the car being the most coveted product that comes with development”—but that more efficient conventional engines were not the answer.

Technically, says Mr Ghosn, everything is now ready for electric vehicles to enter the mainstream—except for the batteries, in which Nissan and NEC, a Japanese industrial giant, are “investing massively”. What matters for all-electric vehicles—as opposed to hybrids, such as the Chevrolet Volt, due in 2010, which can fall back on a petrol engine when the battery runs out—are their limited range and the time taken to recharge their batteries.

When California briefly mandated the sale of electric vehicles in the early 1990s, their 50-mile range and long charging cycles meant that they failed to attract more than a dedicated core of green-minded motorists. But lithium-ion battery technology could push range to 200 miles, and fast-charge systems promise to provide a 70% top-up in only a little more time than it takes to fill a tank with petrol.

Another requirement is innovative business models. Mr Ghosn says the electric version of the Mégane saloon that Renault is building for Israel will come with a lifetime warranty, and payment will follow the model established by the mobile-phone industry. After buying the car, owners will subscribe to a battery-replacement and charging plan based on their anticipated mileage. Recharging will be done at one of 500,000 spots that Project Better Place will build and maintain.

When Nissan launches its new line of electrical vehicles in America in 2010, it will initially target fleet buyers, which can provide their own charging stations. “It will be a real business,” says Tom Lane, Nissan's global product-planning chief, “not just a way to sell 200 cars in California.” He expects sales to retail buyers to begin in 2012, at a price of around $25,000.

Nissan is also hedging its bets by developing both a “parallel hybrid” system (akin to that found in the Toyota Prius) and a plug-in “series hybrid” similar to the Chevy Volt. But it favours the all-electric approach, even though it will be a tough sell, says Mr Lane. As for Mr Ghosn, he has no doubts. “We must have zero-emission vehicles,” he says. “Nothing else will prevent the world from exploding.”

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Great Wall Motor

Hungry like the wolf

May 8th 2008 | BAODING CITY
From The Economist print edition

A small Chinese carmaker with ambitious plans

WITH a model line-up that includes the Wingle, Sailor and Socool, and a corporate action plan to “attack the consciousness like a wolf while sensing danger like a rabbit”, it is easy to poke fun at Great Wall Motor, based in Hebei Province, south of Beijing. The carmaker's output of 108,000 vehicles in 2007 is puny by global standards—about half what Toyota builds in a week. Yet there is nothing modest about Great Wall's ambition.

Its most popular models—the Hover, China's bestselling sport-utility vehicle, and the Deer, a small pick-up—have been supplemented by 14 new vehicles, with two more to follow this year. The firm also plans to introduce an electric car, the Gwkulla. Great Wall recently opened a third state-of-the-art factory which will allow it to increase volumes fivefold. It is already China's second-largest vehicle exporter (after Chery), shipping nearly half its output to over 80 countries. It builds cars with a licensee in Iran and opened a factory in Ukraine last year.

Sales of 7.6 billion yuan ($1 billion) in 2007 and profits of 937m yuan were enough to make Great Wall the most valuable listed carmaker in China, despite having much lower output volumes than its main domestic rivals. It says it will invest a further 10 billion yuan by the end of 2010, by which time it hopes for sales of 100 billion yuan.

How the company is financing this expansion is not entirely clear. In 2003 it raised HK$1.7 billion ($218m) in a Hong Kong listing, but a planned offering to raise a further $138m, scheduled for this month, has been delayed. Great Wall says it has become more dependent on bank borrowing. The sympathetic eye of the central government and recent visits from high-ranking politburo members may have smoothed the way.

Great Wall's sights are now set on Europe and America. The launch model for Europe will be the Gwperi, a fairly blatant knock-off of the Fiat Panda, with a price tag of around €4,000 ($6,200). Fiat, which recently signed a joint-venture deal with Chery, will doubtless examine the Gwperi carefully, looking for evidence of intellectual-property theft. And meeting emissions and safety standards will be no picnic. But Great Wall, with its slogan “improving little by little every day”, seems undaunted.

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Tourism

Rebranding Australia

May 8th 2008 | SYDNEY
From The Economist print edition

How should Australia sell itself?

STREWTH! It is almost 25 years since Paul Hogan, an Australian comedian, tried to lure tourists down under with his promise to throw “another shrimp on the barbie”. A blend of beaches, bikini-clad women and bawdy humour made the “Come and Say G'Day” campaign a sizzling success. In just three months Australia leapt into America's top ten “most desired” holiday-destination list, having previously failed to make the top 50. The number of visitors doubled in four years.

Ever since, Tourism Australia, the government outfit charged with pulling in tourists, has faced the irksome task of escaping from Mr Hogan's larger-than-life shadow. Its most recent campaign, launched two years ago, also combined cheeky humour with curvaceous bodies—the ad concludes with Lara Bingle, an Australian model, asking prospective tourists: “So Where the Bloody Hell Are You?” This was judged too foul-mouthed for Britain, where the advertisement was initially banned. Meanwhile, the Japanese version, “So Why Aren't You Coming?” sounded lacklustre and became a self-fulfilling prophecy. Last year the number of Japanese visitors fell by 12%.

Even though the most recent figures show that tourists poured A$85 billion ($71 billion) into the economy in 2007, the most since 1999, growth has been sluggish—from 4.9m visitors in 2000 to 5.6m last year. Australia remains popular with business travellers and backpackers, but the bottom has fallen out of the “mums and dads” market, the people who had been drawn in by Mr Hogan's larrikin charm.

Privately, the new government under Kevin Rudd, who became prime minister in November, would probably utter a few expletives of its own to describe the “So Where the Bloody Hell Are You?” campaign. Publicly, it has ordered a rethink. The tourism minister, Martin Ferguson, says he wants to promote Australia as a “mature, inviting country”, seemingly in a bid to escape the stereotypes and clichés.

Tourism Australia is now in the final stages of awarding one of the most lucrative accounts in Antipodean advertising: the three-year contract for its new global marketing campaign. The winner is due to be announced in June. “The Hogan ad was brilliant,” says Geoff Buckley, the managing director of Tourism Australia. “But it was never taken globally. Nowadays we need a unique and motivating message that resonates in 23 different markets.”

For all Australia's photogenic beauty and charm, this is a tall order. The country's remoteness means that it is beyond the reach of most low-cost airlines, which have fuelled tourism in Europe and Asia. The strength of the Australian dollar has made it more expensive for visitors. In the longer term, tourism chiefs are worried about climate change. Global warming not only threatens some of its most spectacular tourist destinations, such as the Great Barrier Reef, but may make long-haul travel environmentally incorrect.

Christopher Brown of TTF Australia, an industry lobby group, wants the government to form a brand council, bringing together representatives not just from the travel world, but from the wine, food, film and fashion industries too. “We need some heavy-lifting from other sectors to add depth and richness to the Australian story,” he says. “No country can afford to sell itself with a 30-second tourism ad.”

Inspiration might come from across the Tasman Sea, where the “100% Pure New Zealand” campaign has successfully targeted adventure-seeking tourists. Its dreamy advertisements combine the “Lord of the Rings” landscape, Maori culture and rugby in a way that is stirring rather than stereotypical. But sophistication is no guarantee of success. A campaign along these lines launched in 2004, with the slogan “See Australia in a different light”, failed to have much effect. It will be hard for any new campaign to match Mr Hogan and his well-aimed crustacean.

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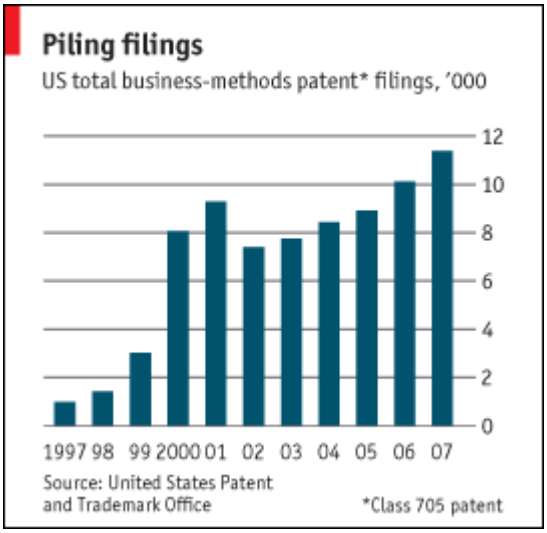
America's patent system

Methods and madness

May 8th 2008 | WASHINGTON, DC
From The Economist print edition

Patent reform may soon happen in the courts, if not on Capitol Hill



ONLY those inventions “worth to the public the embarrassment of an exclusive patent” should receive patent protection, declared Thomas Jefferson, himself an inventor and America's first commissioner of patents. Since his day some patents have proved to be more of an embarrassment than others. Most notorious are “business methods” patents, such as the patent held by Priceline, an online ticket agency, for the Dutch-auction method of selling tickets. Thousands of these patents have been issued since they were first recognised in 1998. But the federal court charged with hearing patent appeals has hinted that it may use a case, in which arguments were due to be heard on May 8th, to cut back the scope of patent protection for business methods.

The patent application submitted by would-be inventors Bernard Bilski and Rand Warsaw is startling in its breadth and simplicity: it claims exclusive rights to the process of using transactions to hedge the risk that demand for a commodity will change. The United States Patent and Trademark Office (USPTO) rejected the application because it was not limited to the use of a particular machine and did not describe any methods for working out which transactions to perform. Any device or method could be used, or none at all. As a result, the USPTO explained, the application amounted to an attempt to patent an abstract idea—the idea of hedging consumption risk using contracts.

Mr Bilski appealed. But rather than hear the appeal in the normal fashion, the court took the unusual step of calling for the parties, and anyone else with an interest in the case, to address not only whether the patent should be granted, but also whether the court should overturn the 1998 case in which it first held that business-methods patents could be awarded. That opened the door to a legal free-for-all by academics, industry, and inventors. The American Civil Liberties Union, a free-speech advocacy group, made its debut appearance in the field of patent law to argue that allowing patents on mental processes would run afoul of the constitutional protection for freedom of thought.

The outcome of the Bilski case could affect the validity of billions of dollars worth of business-methods, software, and financial patents. The firms that receive such patents are divided on their worth. Some companies that own lots of patents, including many business-methods patents, such as IBM and Microsoft, are nonetheless urging the court to cut back on “pure” methods patents and allow only patents on inventions that use machines or produce tangible, physical results. Other firms, such as Accenture and American Express, warn that the court will distort inventors' incentives if it restricts patents on useful methods for minimising risk or managing information.

John Squires, the chief intellectual-property counsel at Goldman Sachs, an investment bank, says business-methods patents are an important way to safeguard the invention of innovative financial techniques. He says reformers should focus on urging policymakers to improve the quality of issued patents of all kinds.

Some other Wall Street firms are more wary. Patents protect intellectual property, but they also breed lawsuits. Research by Josh Lerner of Harvard Business School found that patents on financial innovations were 27 times more likely than average to result in litigation. The defendants in these suits tend to be big investment banks and other financial institutions. Mr Lerner discovered that the most frequent plaintiffs in such lawsuits are patent-holding companies whose only line of business is the litigation of patent suits.

Given the stakes, this week's hearing is unlikely to be the last exchange of words on Mr Bilski's case. Whichever side ultimately loses will probably appeal to the Supreme Court. While the arguments rage in the courts, Congress seems content to do nothing at all about patent reform. On May 5th the Senate removed the bipartisan Patent Reform Act from its calendar. Among other sensible proposals, it would have switched the United States from a “first to invent” to a “first to file” patent system, which the rest of the world uses. But it is now back on the shelf, which is a pity. Courts can twiddle with the edges of statutory language, but only Congress can rewrite broken laws.

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Face value

Dynasty calls

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AFP

How John Elkann unexpectedly ended up in charge of Italy's greatest industrial dynasty

ITS teeth bared, a greyhound sprints across the panels of a large painting before ending badly, its head a blurry mess, its forelegs crumpled. “The painting belonged to my grandfather, who said that it has a message for organisations—they have to keep running, but must stay alert and run with purpose,” says John Elkann, deputy chairman of IFIL, an investment firm based in Turin. His grandfather was Giovanni Agnelli, grandson of the founder of Fiat, a big automotive group which IFIL controls via a 30.4% stake. Having joined IFIL as an investment manager in 2003, Mr Elkann became deputy chairman in 2006 and will assume the chairmanship on May 13th, taking over from 83-year-old Gianluigi Gabetti, an old friend of his grandfather.

The 32-year-old Mr Elkann, oldest son of Giovanni Agnelli's only daughter, represents a new generation of Italy's greatest industrial dynasty. But for most of his life he did not expect to end up running the family business. Born in New York, he spent his childhood in America, France and Brazil. He was appointed to Fiat's board at the age of 21 in December 1997, after the unexpected death of his mother's 33-year-old cousin Giovanni, the heir apparent. The subsequent deaths of Mr Elkann's grandfather in 2003 and great-uncle in 2004 led to his appointments as vice-chairman of Fiat and deputy chairman of IFIL.

Meanwhile, Fiat's own survival was in the balance as it flipped between managers, and Mr Elkann soon came to understand his grandfather's reading of the sombre black-and-grey painting. Fiat lacked direction, had lost touch with its customers and was making huge losses. The Agnelli family's ties with it were threatened by a convertible-bond issue held by banks, and by intense pressure for a break-up. But today Fiat is prospering and, thanks to an equity-swap operation to which IFIL was party (and which prompted criticism and legal action), the family's hold is secure. “My biggest satisfaction was to learn, inexperienced as I was, that it is possible to find ways out of the deepest difficulties,” says Mr Elkann. “I learnt not to be desperate in bad times, and am learning not to be bullish when times are good.”

His grandfather, who studied law but never practised, was always known as *avvocato*. Mr Elkann is a graduate in industrial engineering, having chosen that subject, he says, because it was more challenging than economics or business, the usual choices of youngsters preparing to take over the family firm. In Italy, where *avvocati* and *dottori* are thick on the ground, the title of *ingegnere* has greater prestige. A career in business was always Mr Elkann's aim, “though not necessarily in the family one”. Only when fate intervened was he rapidly groomed for the top.

Before joining IFIL Mr Elkann spent two years as a member of the corporate-audit staff at General Electric, often the first rung on the ladder for that firm's senior executives. And as a student he had worked during the holidays in various factories belonging to the Fiat group: on a car-production line in

Poland, in a dealership in France and in a component factory in the English Midlands, where he boarded with a very ordinary English family. “They played the lottery every week and talked about what they would do with the money should they win,” Mr Elkann remembers. The experience left its mark on him, a member of one of Italy's richest families who had boarded incognito. Yet he shows none of the arrogance that often goes with money and much of the charm for which his grandfather was famous.

About 90 members of the family have a stake in the business empire through a chain that begins with a partnership called Giovanni Agnelli & C. This has a 2.3% direct interest in Fiat and owns all the ordinary shares of a holding company which, together with the partnership, owns 69.8% of IFIL. Listed on the Italian stockmarket, IFIL holds the dynasty's jewels. Sparkling once again, Fiat represents about 58% of its portfolio, today worth about €8.4 billion ($13 billion). Though this is rather less than last year when Fiat's shares were riding high, it is far more than at the end of 2004, before the car group's turnaround, when the portfolio was worth €4.8 billion and Fiat accounted for 33%. IFIL's other investments include 2.5% of Intesa Sanpaolo, Italy's biggest bank, 15% of SGS, a Swiss certification and inspection firm, and 70.2% of Cushman & Wakefield, a property company. It also owns 60% of Juventus, perhaps Italy's best-known football club, and 9.8% of Banca Leonardo, a boutique investment bank.

Lessons in leadership

Over the past two years IFIL's net asset value has outperformed the stockmarket. When it comes to future investments, Mr Elkann says the company—with just 15 professionals in a total staff of 50—is attracted less to industries and regions and more to the people who run companies. “We think the ownership culture is very important, so we like to invest in businesses whose leaders are also owners,” he says.

In his brief career Mr Elkann has already had several chances to ponder the nature of leadership. Two years ago when Juventus was hit by a big scandal, he moved quickly to remove the old management and install an outsider as chief executive: a Frenchman with experience in international sports-management and an MBA from Harvard. But Fiat, at the heart of the family empire, has taught Mr Elkann his toughest lessons. He was a member of the three-man selection team, with his great-uncle and Mr Gabetti, that made the wrong choice for a new chief executive in 2003—something corrected only the following year, after the death of his great-uncle.

Mr Elkann knows that the better the leaders of the companies in IFIL's portfolio, the less its top managers need to worry about managing existing assets, and the more time they can spend on new investments. At the same time, he appreciates that nurturing future leaders is crucial. As Mr Elkann is all too aware, the question of succession is ever present.

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Energy efficiency

The elusive negawatt

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From The Economist print edition

Alamy

If energy conservation both saves money and is good for the planet, why don't people do more of it?

IN WONKISH circles, energy efficiency used to be known as “the fifth fuel”: it can help to satisfy growing demand for energy just as surely as coal, gas, oil or uranium can. But in these environmentally conscious times it has been climbing the rankings. Whereas the burning of fossil fuels releases greenhouse gases, which contribute to global warming, and nuclear plants generate life-threatening waste, the only by-product of energy efficiency is wealth, in the form of lower fuel bills and less spending on power stations, pipelines and so forth. No wonder that wonks now tend to prefer “negawatts” to megawatts as the best method of slaking the world's growing thirst for energy.

Almost all blueprints for tackling global warming assume that energy efficiency will have a huge role to play. Nicholas Stern devoted a whole chapter to it in the report he wrote on climate change for the British government. In the greenest of futures mapped out by the International Energy Agency, a think-tank financed by rich countries, greater efficiency accounts for two-thirds of emissions averted. The McKinsey Global Institute (MGI), the research arm of the consultancy, thinks that energy efficiency could get the world halfway towards the goal, espoused by many scientists, of keeping the concentration of greenhouse gases in the atmosphere below 550 parts per million.

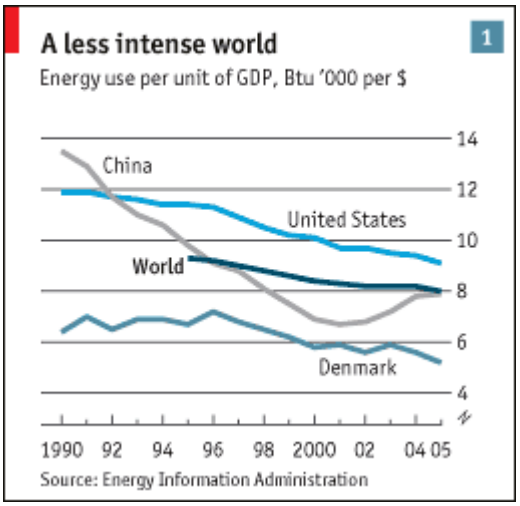
MGI is particularly enthusiastic because it believes that unlike most other schemes to reduce emissions, a global energy-efficiency drive would be profitable. The measures it has in mind, all of which rely on existing technology, would earn an average return of 17% and a minimum of 10%. The Intergovernmental Panel on Climate Change, a group of scientists advising the United Nations on global warming, makes a similar point. It believes that profitable energy-efficiency investments would allow Pakistan to cut its emissions by almost a third, Greece by a quarter and Britain by more than a fifth.

In other words, big investments in energy efficiency would more than pay for themselves, and fairly fast. Although a lot of money would have to be spent—$170 billion a year until 2020—by MGI's reckoning that is only 1.6% of today's global annual investment in fixed capital. Moreover, with ample profits to be made, financing should be easy to attract.

Yet if there are so many lucrative opportunities to improve efficiency, why are investors not already taking advantage of them? To a degree, they are: in America, for example, “energy intensity”—the amount of energy required to generate each dollar of output—is falling by about 2% a year (see chart 1). This is only partly because America's factories, houses, cars and appliances are becoming more efficient: it is also because energy-guzzling factories have moved to cheaper spots such as China. But globally,

too, energy intensity is falling by around 1½% a year.

That decline is not predestined. Before the first oil shock, in 1973, America's energy intensity was falling by only 0.4% a year. At that languid pace, America would now be spending 12% of GDP on energy instead of 7%, according to Art Rosenfeld, an efficiency pioneer and a member of the California Energy Commission, which sets efficiency standards and other energy policies for the state. Simply by buying more efficient fridges over the years, he reckons, Americans have come to save more than 200 terawatt-hours (TWh) annually, or roughly 80 power plants' worth.



But as McKinsey points out, there are still hundreds of billions of dollars' worth of unfulfilled but potentially profitable opportunities in energy efficiency available to households and companies. What is holding investors back?

One answer is price. In the eyes of many consumers, electricity and fuel are often too cheap to be worth saving, especially in countries where their prices are subsidised. Industrialists in Russia are profligate with natural gas, because it sells there at a quarter of the international price. Drivers in Qatar have little incentive to scrimp on petrol when they pay barely a dollar a gallon for it.

By and large, energy intensity is, not surprisingly, lower in countries where electricity prices are higher. It is no coincidence that Denmark has both high power prices and an energy-efficient economy. Among American states, for every cent per kilowatt-hour by which prices exceed the national average, energy consumption drops by about 7% of the average. George David, the boss of United Technologies, a conglomerate that makes air-conditioners, lifts and aircraft engines, among other items, argues that higher fuel and power prices are the only motor needed to drive energy efficiency.

But there are still plenty of profitable investment opportunities in energy efficiency, even in the places with the most expensive power. David Goldstein, author of a recent book on energy efficiency, points out that until recently businesses in New York lit their premises more brightly than did those in Seattle, despite New York's much higher power prices. And Hawaii, the American state with the dearest power, is not the most efficient (although the one with the cheapest, Kentucky, does come bottom of the efficiency table).

The problem, analysts explain, is a series of distortions and market failures that discourage investment in efficiency. Often, consumers are poorly informed about the savings on offer. Even when they can do the sums, the transaction costs are high: it is a time-consuming chore for someone to identify the best energy-saving equipment, buy it and get it installed. It does not help that the potential savings, although huge when added up across the world, usually amount to only a small share of the budgets of individual firms and households. Despite recent price increases, spending on energy still accounts for a smaller share of the global economy than it did a few decades ago.

For all these reasons, homeowners, as Lord Stern pointed out in his climate-change report, tend to demand exorbitant rates of return on investments in energy efficiency—of around 30%. They generally want new boilers or extra insulation to pay for themselves within two or three years, says Mark Hopkins, of the United Nations Foundation, an NGO. Businesses are not quite so demanding, he says, but they still tend to put greater emphasis on increasing revenues than on cutting costs.

Similar stories crop up in the markets for new homes and offices, appliances and vehicles. Builders are not the ones who end up paying the utility bills, so have little reason to add to the construction costs—and hence the price of a home or office—by incorporating energy-saving features. The makers of appliances and cars also know that not all consumers and drivers will think as carefully about running costs as about the purchase price. By the same token, landlords have scant incentive to invest in energy efficiency on their tenants' behalf. And power companies are usually keen to encourage their customers to consume as much power as possible.

Financing energy-efficiency investments can also be difficult. In the developing world, capital can be scarce. In rich countries, the savings from making individual homes more efficient are too small and the overheads involved too high to be of much interest to most banks.

The scent of savings

Despite these obstacles, as energy prices rise and more countries adopt limits on greenhouse-gas emissions, banks and consultancies are beginning to sniff an opportunity. Firms that help businesses and families to trim their energy bills have become common enough to earn an acronym: ESCos, or energy-service companies. Their industry group in America says business, which had been growing at 3% a year in the early part of this decade, is now increasing by 22% a year. The total revenues of the 46 ESCos it surveyed were about $3.6 billion in 2006, about three-quarters of which came from energy efficiency.

Typically, an ESCo designs a scheme to reduce a building's energy bill, borrows money to pay for the kit it needs, and installs and maintains it over a fixed period. Clients do not need to provide any cash up front: the ESCo's reward comes from retaining most of the savings—out of which it must repay the loan. The revenues are steady and predictable enough to allow ESCos to unburden their balance sheets and lower their borrowing costs by securitising them. Hannon Armstrong, one of the financial-service firms involved, says it has arranged more than $1.5 billion-worth of such securities.

The hitch is that 80% of ESCos' customers in America are from the various branches of the government, along with schools, hospitals and universities. Small businesses and households would provide a much bigger market, but they tend to be less creditworthy and to move more often. Moreover, the transaction costs tend to outweigh the savings.

Jeff Eckel, of Hannon Armstrong, believes it is possible to overcome these problems by aggregating many similar properties and by drawing up clever contracts. The Clinton Climate Initiative, a charity set up by the former American president, is thinking along the same lines. It has persuaded the local authorities in 40 big cities around the world to co-ordinate their investments in energy efficiency. It then used the allure of such a big market to persuade the makers of energy-efficient goods, the ESCos that will install them and the banks that will finance them to reduce their margins. The cities with which the charity has linked up include Chicago, London and New York.

Most governments, however, do not seem convinced that businessmen and do-gooders are capable of overcoming the impediments to energy efficiency on their own. So they are intervening in markets. The variety of methods they use hints at the difficulties.

The simplest tactic is to try to get the public to think. Britain set up a body called the Energy Saving Trust in 1993; America has a similar outfit, called Energy Star. Among other things, it helps consumers identify energy-efficient products and houses through a voluntary labelling scheme. The European Union goes slightly further, with compulsory labelling of goods such as fridges, washing machines and dishwashers; and Britons selling a home must now have its energy efficiency assessed.

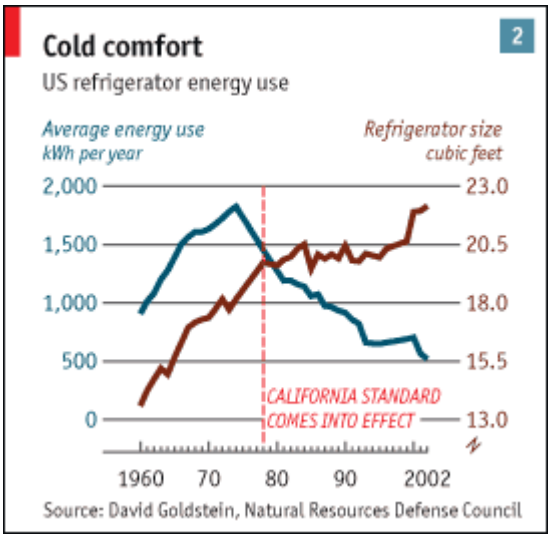
But consumers often ignore such labels or at least do not give them as much weight as price, appearance or convenience. So governments sometimes try to make efficient appliances more appealing through financial incentives. America's federal government, for example, offers a tax credit to makers of extremely efficient appliances—and several states give rebates, income-tax credits or sales-tax exemptions to anyone who buys them. China has just said it will subsidise makers of compact fluorescent light-bulbs, which are four or five times more efficient than the cheaper incandescent sort.

Other governments blanch at bribing people to do something that is already in their interest. Australia has proposed banning incandescent light-bulbs outright. Many have adopted building codes and appliance standards that dictate minimum levels of efficiency. Several tighten the standards regularly, to foster constant improvement. Japan's Top Runner scheme, for example, identifies the most efficient appliances on the market in different categories, and then requires all competing brands to improve on them within four to six years. Those that fail face fines.

Businesses often complain that such tough measures impose undue costs, which they must then pass on to consumers as higher prices. They also argue that their customers should be free to buy bigger or more powerful devices if they want, even if that makes them relatively inefficient. Notably, America's carmakers have used such arguments to resist increases in fuel-economy standards.

When Congress raised standards last year it tried to address these complaints by setting different targets for heavy and light vehicles. Each firm's target is an average across all the cars it sells, not a model-by-model limit, so there is still scope to make the odd guzzler. Anyway, environmentalists dispute the notion that energy-efficiency standards drive up prices. The average price of fridges in America has fallen by

more than half since the 1970s, even as their efficiency has increased by three-quarters, according to Mr Goldstein. Those gains have come in spite of steady increases in the size of the average unit (see chart 2).



Governments are also obliging utilities to get involved in the business of energy efficiency. Some, including many American states, add an extra sum to electricity bills to finance investments in energy efficiency. Others specify the amount of energy to be saved, rather than the amount to be spent. France, for example, requires gas and electricity suppliers to invest enough over three years to reduce projected demand by 54TWh.

Britain and Italy have similar schemes, although the targets are expressed in tonnes of carbon and barrels of oil, respectively. External auditors verify the savings, and the “white certificates” they issue when they have done so are tradable. The intention is to keep the cost of the scheme low by allowing those that can achieve reductions most cheaply, including ESCos, to do so on behalf of less expert participants. The idea is also spreading in America: Connecticut, Nevada and Pennsylvania have all adopted it.

A sparky divorce

But a white-certificate scheme would have to be very demanding to outweigh a utility's incentive to sell more power. So other American states have gone further, and attempted to “decouple” utilities' profits from their sales. Regulators forecast demand and allow utilities to charge a price that would recoup their costs and earn a fixed return on the basis of that forecast. If demand turns out to be lower than expected, the regulator lets prices rise so that the utility can make the mandated profit; if it is higher, the regulator cuts prices to return the excess to customers.

California, predictably, has gone further still. It first decoupled sales and profits for gas in 1978 and for electricity in 1982. Last year, it adopted a scheme called “decoupling plus”, which aims to make investments in energy efficiency more profitable for utilities than new power stations would be. Fees to finance energy-saving measures are added to each bill, and utilities spend the money in pursuit of targets set by the regulator, the California Public Utilities Commission (CPUC). The commission then calculates the savings from these investments, compared with the cost of new power plants. If a utility achieves between 85% and 100% of the target, it is allowed to keep 9% of these savings. If it exceeds the regulator's target, it gets 12%, more than it would earn from building new infrastructure. Between 65% and 85% it does not earn any return at all, and below 65% it pays a fine for every kilowatt-hour by which it has fallen short.

This complicated system is designed to make sure utilities spend more on energy efficiency, but do not waste billpayers' money on investments of dubious merit. California's private utilities now spend about a $1 billion every year on energy efficiency. In July the CPUC will announce their energy-savings targets as far as 2020. The state, says Dian Grueneich, one of the commissioners, hopes to meet half of all projected demand growth through increased energy efficiency.

Less dainty governments just oblige the most energy-hungry firms to cut back. The 13,000 factories in

Japan with the highest energy use are required to improve their efficiency by 1% a year. Those that fail to do so are fined. China's central government has followed suit, setting energy-efficiency targets for the country's 1,000 biggest firms. That step, in turn, has spawned similar initiatives in the provinces. Overall, the Chinese government hopes that energy intensity will be 20% lower in 2010 than it was in 2006.

However, no matter what methods governments adopt to encourage energy efficiency, the results may not be as impressive as they imagine. The culprit is something called the “rebound effect”. Falling demand for electricity or fuel brought on by an efficiency drive should lead to lower prices. But cheaper energy, in turn, is likely to prompt greater consumption, undermining at least some of the original benefits. What is more, consumers with lower electricity or fuel bills often put the money they have saved to some other use, such as going on holiday or buying an appliance, which is likely to involve the consumption of fuel and power.

Economists disagree about the size of the rebound effect, which is hard to measure. The British government commissioned two studies of the effect, from two different universities. The first found that it cancelled out roughly 26% of the gains from energy-efficiency schemes; the other put the figure at 37%. Either way, negawatts are worth pursuing. But they are unlikely to satisfy the world's thirst for energy to the extent their advocates assume.

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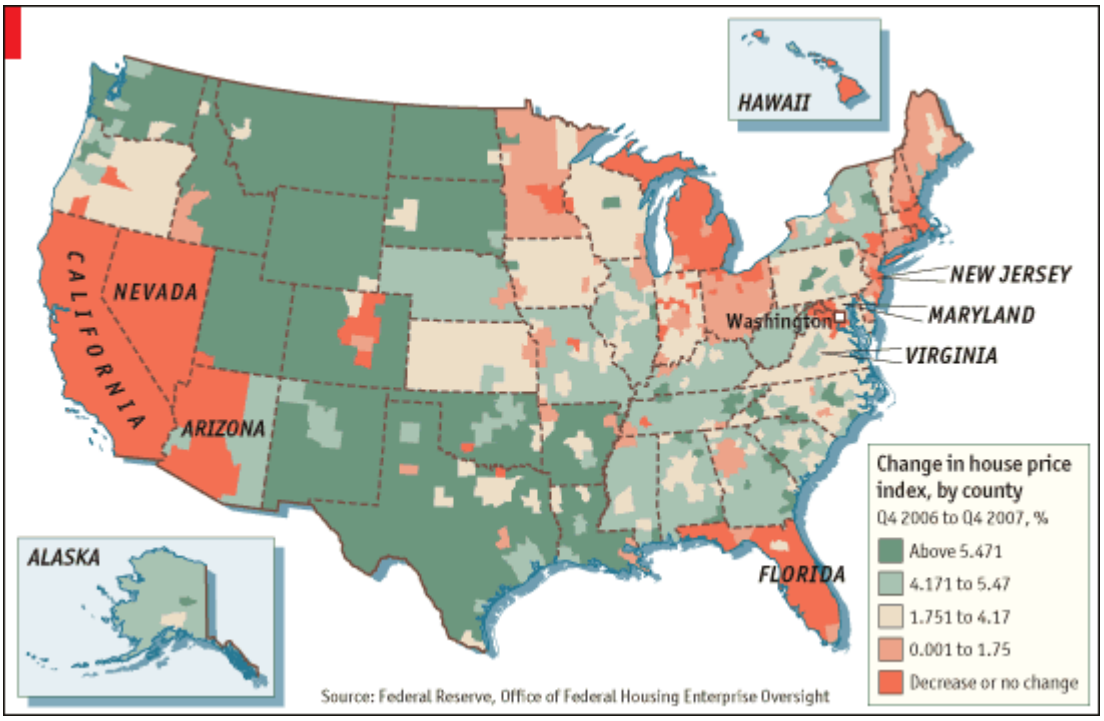
American housing

Map of misery

May 8th 2008 | WASHINGTON, DC
From The Economist print edition



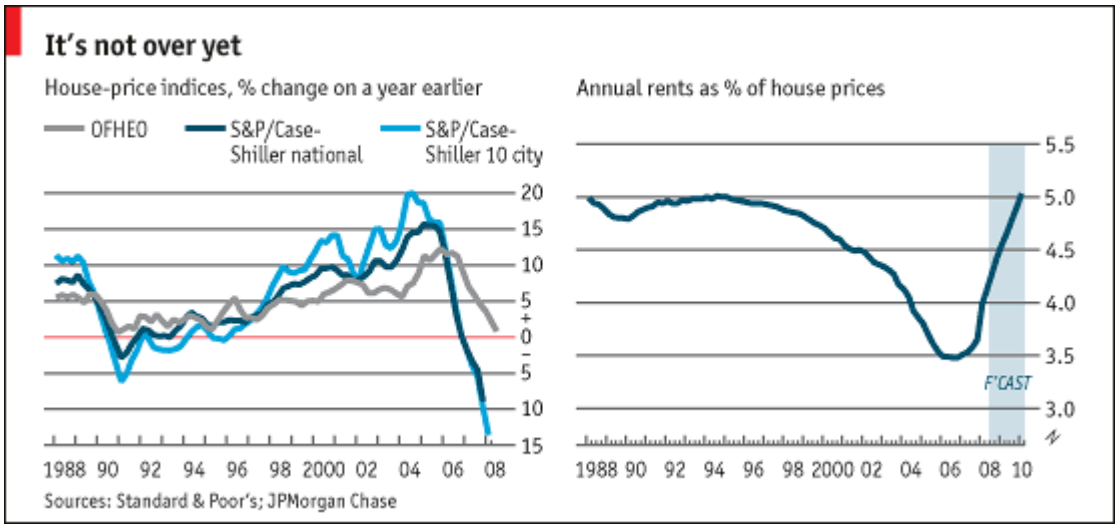
America may well be only halfway through the house-price bust

SOUNDING more like a cartographer than a central banker, Ben Bernanke this week showed off the Federal Reserve's latest gizmo for tracking America's property bust: a series of maps that colour-code price declines, foreclosures and other gauges of housing distress for every county in the country. The Fed chairman's goal was to show graphically that falling prices meant more foreclosures, and he went on to urge lenders to write down the principal on troubled loans where the house is worth less than the value of the mortgage. But the jazzy design of his maps—where hotter colours imply more trouble—also makes a starker point. The pain of America's housing bust varies enormously by region. Hardest hit have been the “bubble states”—California, Nevada and Florida, as well as parts of the industrial Midwest. The biggest uncertainty hanging over the economy is how red will things get.

The answer is not simple. For a start, it is hard to be sure just how much house prices have fallen. America has several house-price indices and they tell different stories. Widely cited, but least useful, are monthly figures showing median home prices produced by the National Association of Realtors (NAR). These indicate that median prices are down some 13% from their peak, but since these averages do not adjust for the mix of homes changing hands, which fluctuates from month to month, they are inevitably distorted.

Mr Bernanke's maps use figures from the Office of Federal Housing Enterprise Oversight (OFHEO). Its statistics have broad geographic reach and track repeat sales of the same house. The monthly national index suggests average prices have fallen only 3% from a peak in April 2007, and the quarterly figures are still positive (see left-hand chart). But OFHEO's figures include only houses financed by mortgages backed by the government-sponsored giants, Fannie Mae and Freddie Mac. By excluding subprime and jumbo loans, they leave out the top and bottom of the market—where prices rose fastest during the bubble and where the mortgage mess was most severe. Thus OFHEO's figures probably understate the scale of the housing mess, particularly in states such as California and Florida. Another set of indices, developed by Robert Shiller and Karl Case and produced by Standard & Poor's (S&P), a rating agency, includes all types of houses and, not surprisingly, show house prices rising faster during the boom and falling faster now. As of the fourth quarter of 2007, the S&P/Case-Shiller national index was down 10%

from its peak, and an index of ten large cities had fallen by almost 16% by February. Although the Case-Shiller figures are not perfect—they miss many rural areas—they are a better gauge of price declines in big cities.



Assessing how much further house prices are likely to fall gets even trickier. One route is to look at market expectations: investors expect a further 20% drop, judging by the prices of futures contracts linked to the Case-Shiller 10 city index. But the futures market is small and illiquid and may overstate the possible declines.

The discrepancy between supply and demand suggests that prices could fall a lot more. By historical standards there is a huge glut of unsold homes on the market. The homeowner-vacancy rate—which includes all vacant homes for sale—has soared to a record level of 2.9%, which means that there are some 1.1m "excess" houses for sale compared with the average between 1985 and 2005. Although the inventory of new homes is falling as builders have slashed their production, the supply of homes for sale is being pushed up by foreclosures even as demand from new homeowners remains weak.

By most measures, prices are still above the levels implied by the fundamentals. Using a model that ties house prices to disposable incomes and long-term interest rates, analysts at Goldman Sachs reckon that the correction in national house prices is only halfway through. They expect an 18-20% correction overall, or another 11-13% decline from today's levels. But their models suggest that six states—Arizona, Florida, Virginia, Maryland, California and New Jersey, could see further price declines of 25% or more.

Optimists dispute this gloomy assessment, pointing out that some measures of housing affordability have dramatically improved. According to NAR figures, monthly payments on a typical house with a 30-year mortgage and 20% downpayment were 18.5% of the median family's income in February, down from almost 26% at the peak—and close to the historical average. But this measure of affordability is misleading, not least because credit standards have tightened so much. The latest survey of loan officers conducted by the Fed suggested on May 5th that 60% of banks tightened their lending standards for prime mortgages in the first three months of 2007. And, as Michael Feroli of JPMorgan points out, the affordability gauge depends on what measure of home prices you look at. Use the Case-Shiller index, where the affordability of housing worsened sharply during the boom, and mortgage payments are still high in relation to incomes.

The right-hand chart shows a better measure of housing fundamentals—the relationship between house prices and rents. This is a sort of price/earnings ratio for the housing market: the price of a house reflects the discounted value of future ownership, either as rental income or as rent saved by an owner who lives in the house.

A recent analysis by Morris Davis of the University of Wisconsin-Madison, and Andreas Lehnert and Robert Martin of the Fed, shows that the rent/price yield in America ranged between 5% and 5.5% from 1960 to 1995, but fell rapidly thereafter to reach a historic low of 3.5% at the height of the boom. Given the typical pace of rental growth, Mr Feroli reckons house prices (as measured by the Case-Shiller index) need to fall by 10-15% over the next year and a half for the rent/price yield to return to its historical average. Again, that suggests the national housing bust is only halfway through. And, given the scale of excess supply, house prices—particularly in hard hit areas—are likely to overshoot. All told, Mr Bernanke's maps are going to get a lot redder—and the pressure on policymakers to help struggling

homeowners is bound to increase.

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Buttonwood

Backing greens with greenbacks

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It takes patience and guts to invest in the environment

Illustration by Satoshi Kambayashi

AL GORE does not just make films about climate change. His fund-management firm, Generation Investment Management, has just raised $683m for a “climate solutions” fund. The hope is that environmental principles and shrewd investing can produce strong profits.

But could the combination of soapbox movies and warm air form a bubble instead? Certainly, the valuations that have been attached to some green shares have brought back memories of the dotcom era. As yet, though, the sector has not created the household names, the Netscapes and the eBays, that were seen as “must buys” for your average day trader.

Indeed, so far this year, environmental investors must be feeling green with nausea. The Impax ET50 index of leading environmental shares peaked at 286 at the end of 2007 and then plunged by nearly a quarter in January; even after a recovery, it is still down 10% on the year.

If events in the industry do resemble those of the late 1990s, the better analogy may be telecoms, not dotcoms. Most green companies are not a matter of a couple of geeks and a website. Just as telecom companies laid down billions of dollars worth of fibre-optic cables, environmental companies require large amounts of capital—for building a wind farm or a tidal barrage—or the patience to invest in new technologies, such as cellulosic ethanol or thin-film solar panels.

This means that the shares are likely to be volatile. The returns are highly uncertain, because the big profits (if any) are many years away. News events such as technological breakthroughs or changes in government policy will have a much bigger impact on valuations.

Two years ago, for example, biofuels were favoured investments because of the Bush administration's drive for energy independence, and its provision of subsidies for ethanol production. But doubts about the green credentials of biofuel use, and the knock-on effects on food prices, have caused investors to become disillusioned. Hopes are now pinned on the “second generation” of biofuels that will be created from non-food crops grown on marginal land, but the technology is years away from perfection.

It is both good and bad that there are so many competing solutions to the problem of climate change. When one technology falls out of favour, there is always another to take its place. Last year, much of the action was in solar; shares in First Solar, a company backed by the Walton family of Wal-Mart fame, rose nearly 800%. But solar shares have come off the boil and enthusiasm has switched back to wind; Iberdrola Renovables, a spin-off from the Spanish utility, raised €4.5 billion ($6.6 billion) in a float at the end of last year.

The danger is that a lot of money may be wasted as investors chase technologies that turn out, in the long run, to be too costly or impractical. For every observer who thinks the answer lies in renewable energy, there is another who believes in carbon capture. As Bruce Jenkyn-Jones of Impax, an environmental-finance group, says: “The key in this field is not to get too excited about anything.”

As a way of keeping their pulses steady, some investors have favoured more prosaic businesses, such as energy efficiency. But even these shares have taken a hit in recent months because of their links to the moribund construction industry; new houses may contain more insulation these days, but at the moment fewer of them are being built.

That example encapsulates the problem. Picking the winners in the environmental industry is astonishingly difficult. The chances are that, just as in many other fields, the pioneers will go bust and a second or third wave of companies will reap the profits.

Generation, which Mr Gore chairs, is trying to look ahead and has linked up with Kleiner Perkins, a venture-capital group, to help it spot the coming stars. Colin le Duc, the head of research at Generation, picks out three areas of interest; smart metering of users that allows utilities to adjust prices at different times of the day; solar thermal plants that use mirrors to heat water; and biomass as a stock for purposes other than fuel—such as turning wood into plastic.

Of course, no one knows whether those ideas will be more successful than anything else. When it comes to green investing, there is no black and white. Perhaps the best hope for the industry is that the oil price remains stubbornly high. While it does, alternative energy sources will look more affordable and investors will be willing to stump up the cash to develop the technologies involved. But they will need strong nerves and the patience to wait for a long time.

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Bank lay-offs

First ink, now blood

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The West's financial centres run red

THE axe is now swinging with abandon. UBS unveiled yet another set of embarrassing quarterly results on May 6th and also announced 5,500 job losses, many of them at its investment-banking unit. The cull comes soon after similar carnage at Citigroup and Merrill Lynch, which also announced thousands of cuts last month.

That these three are issuing pink slips is no surprise: they have posted the biggest losses, and UBS, for one, has said it wants to scale back its investment-banking business. But others are also cutting. On May 5th Morgan Stanley said it planned to chop 1,500 jobs in the next few months. JPMorgan Chase and Royal Bank of Scotland are set to shed jobs at Bear Stearns and ABN AMRO's wholesale arm respectively.

Mindful that they quickly had to rehire after the dotcom bust, the last big round of lay-offs, many in the industry had hoped for modest job losses. After an initial burst of cuts last year (see chart) focused mainly on America's benighted mortgage industry, the pace of firing had slowed early this year. But as banks face up to a protracted period of much lower growth, sackings have picked up again.

Data from Challenger, Gray & Christmas, a consultancy, show that one in every four job cuts announced in America last month came in financial services. New York's Independent Budget Office reckons that the city will lose 12,600 financial jobs in 2008 (blowing a large hole in its tax revenues). The Centre for Economic and Business Research forecasts that 19,200 jobs will go in the City of London over the next two years.

The pain will not be evenly distributed. Inside the investment banks, fixed-income specialists are at particular risk. The outlook is bouncier in commodities and (for the moment) equities. There is even some hiring—especially for desks to deal with cash-rich sovereign-wealth funds. A little late, good risk managers are in demand. So too are bankers specialising in the finance industry, where there is no shortage of capital to be raised and deals to be done.

Emerging markets are still expected to grow (even if redundancies are also happening in places like Hong Kong): headhunters say American bankers are more willing to move abroad in search of work. Wealth-management types are also in demand as banks look to secure stable sources of income.

Investment banks have more flexibility than others to deal with a downturn, thanks to bonuses. Having such a variable cost base makes it easier to reduce expenses without cutting jobs. Goldman Sachs's pay pot dropped by 35% in the first quarter, for example, compared with the same period in the previous fiscal year.

Other banks have fewer options. Octavio Marenzi, the boss of Celent, a consultancy, says that American commercial banks are aiming to cut their costs by around five percentage points in total. Since roughly half their expenses are tied to borrowing costs, which they cannot control, that translates into an 8-10% fall in non-interest operating costs, of which salaries are a big part. Celent forecasts that up to 200,000 jobs could go in American banks over the next two years.

All this blood-letting may reassure shareholders. Whether it will do them much good in the longer term is more doubtful. Swingeing cuts tend to slice into muscle as well as fat, hurting the bits of the bank that can make money. According to Mr Marenzi, banks that announce cost-cutting programmes are more

likely to see their expense ratios worsen than those that do not. The idea of jobless bankers may gladden some souls; the brain should reserve judgment.

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African finance

Turning towards Mecca

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Islamic banks join in the race for Africa

CHINA is not the only financial powerhouse with its hungry eye on Africa. Flush with oil wealth, the Gulf states, too, are spying profitable opportunities among the hundreds of millions of Muslims who live just a hop across the Red Sea. Africa's economies are growing fast, thanks in large part to the commodities boom. Although many people on the continent do not have a bank account, the banking systems in some countries are growing increasingly sophisticated. Bankers from the Gulf hope that the middle class, particularly in the Muslim north, will turn to Islamic finance, and that firms will raise money through Islamic bonds, known as *sukuk*. Moody's, a credit-rating agency, reckons that although Islamic finance was worth a puny $18 billion at the end of last year, its potential is close to $235 billion—about half what it estimates as the GDP of Africa's Muslim population.

So far, forays from the Gulf into Africa have been limited to a few countries. Sudan—where only s*haria*-compliant finance is allowed in the north—dominates, holding over half of Africa's Islamic-banking assets. A number of Gulf banks, familiar with the country's language and oil resources, have joined forces with Sudanese investors to open Islamic banks. Last year the first *sukuk* from Africa was issued by a Sudanese cement firm. Reportedly, the government also tapped the market in January—selling bonds to Gulf investors to sidestep American economic sanctions over the massacres in Darfur.

But Sudan's banking industry remains embryonic and few African countries combine the strong desire to promote Islamic banking with heavy demand from Muslim customers. “Islamic banking is a luxury product,” admits Anouar Hassoune of Moody's: it tends to do better in places with established banking systems, such as South Africa and Kenya. South Africa's only Islamic bank, Albaraka, was set up in 1989. Last year the Kenyan authorities licensed two Islamic banks, Gulf African Bank and First Community Bank, both backed by Gulf investment.

Western banks are also dipping their toes in. In Kenya Barclays was the first to offer an Islamic bank account appropriately named *La Riba*, meaning “no interest”. South Africa's ABSA opened an Islamic banking division in 2006. It offers phone, internet and branch banking. Its head, Ahmed Moola, says the division was profitable last year, though he declines to discuss numbers.

Some of the keenest African custom for Islamic products is in countries where Muslims are a small minority; it provides a way of affirming their cultural heritage. Hamza Farooqi, who heads South Africa's CII Holdings, a diversified business group, has gradually been moving his own and his company's finances from conventional banks to ABSA's Islamic division. It has asked ABSA to help finance the first “dry” five-star hotel in Cape Town.

Islamic finance in Africa is a niche market, and probably will remain so. Islamic scholars are few and far between; few countries' laws are suitable for Islamic banking; the margins tend to be thinner than in the conventional Western model. Some countries, such as Nigeria, with almost 70m Muslims and a booming banking sector, should be fertile ground. The authorities' hands are full, however, sorting out its existing banks.

One of the most promising areas of growth may be in project finance and bonds. The continent's vast need for infrastructure is matched only by the shortage of investment funds: Gulf investors could help bridge the gap. Project finance is well suited for Islamic financial instruments, which need to be backed by physical assets. Gulf Finance House, an Islamic investment bank based in Bahrain, signed a $1.4 billion deal in Morocco to fund two tourism projects in 2006. Senegal is said to be contemplating issuing a sovereign *sukuk*. It could be a 21st-century version of “the scramble for Africa”. But this time the Gulf is moving in alongside China.

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Argentine lending

Who needs credit?

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Life can limp on without modern finance—but not forever

Illustration by Satoshi Kambayashi

WHILE the ripples of America's subprime-mortgage crisis have spread far and wide, Latin America—a place long associated with financial disaster—has remained improbably calm. Banks have reported no unpleasant surprises. Brazil and Peru have been blessed with coveted investment-grade ratings. Surprisingly, perhaps the fleetest country of all has been Argentina. Since it emerged from the financial crisis of 2001-02, it has been one of the world's fastest-growing economies. It is expected to expand faster than most of its neighbours again this year. How has such a perennial economic miscreant proven so resilient to the credit crunch?

Quite simply, it barely has any credit. Back when its economy virtually collapsed, the country suffered a run on its banks, followed by a freeze on withdrawals, a massive currency devaluation, and the largest sovereign-debt default in history. As a result, bank lending to the private sector shrivelled, from 23.8% of GDP in 2000 to 10.8% in 2003. Since then, it has rebounded to a piddling 13%; by contrast, the ratio in Brazil was 36.5% in 2006. Almost all of these loans in Argentina are accessible only on a short-term basis.

Such limited access to financing has often been associated with low levels of growth and investment. But investment has doubled as a share of GDP since the crisis. The Argentine case would thus seem to call into question just how valuable a modernised banking sector and capital markets actually are for developing countries. But it would be dangerous to draw the wrong lesson from the country's creditless growth spurt.

Once its recovery began in June 2002, Argentina became a paradise for business. Unemployment of over 20% kept wages down, and the devaluation gave exporters an edge on foreign competitors. The ample productive capacity left idle by the crisis meant firms could expand without making big investments. And the windfall profits reaped by agricultural exporters, thanks to record commodities prices, enabled many of them to finance new projects out of earnings. Hence the economy could grow at almost 9% a year with little need for credit.

But such a fortuitous confluence of factors could not last. Starting in early 2005, inflation picked up, a sign that the installed capacity was starting to limit output. Salaries and prices for raw materials increased sharply, cutting into profits. And farmers were particularly hard hit when the government nearly doubled the taxes it levies on farm exports. Now, just as companies need to embark on big investments if they are to keep growing, their margins are no longer big enough to pay for the expansion and they need to borrow.

So, the time is ripe for the country's financial system to recover. But a number of things are in the way. Foremost is Argentina's business risk. Those in the informal economy (which represents over 40% of GDP) can neither save nor borrow legally, lest they become known to the taxmen. The rest remain cowed by memories of the crisis. Although Argentines have poured their savings into property, fuelling a construction boom, they still hold about four-fifths of their deposits abroad.

Inflation, fuelled by a public-spending binge, state-mandated wage increases, and a cheap currency, is not helping either. No one knows how high it is. The consumer-price index is doctored to keep the official rate below 10%, but private estimates suggest it is near 25%. Without a reliable gauge of inflation, lending is almost impossible, even for the medium term. And the central bank has kept interest rates strongly negative in real terms, encouraging workers to spend their wages rather than to save. As a

percentage of GDP, bank deposits of over 180 days shrunk by 29% in 2007. “It's a dysfunctional market for money,” says Daniel Marx, a former finance official. “The price signal doesn't enable savings and investment to meet.”

Argentina's immunity to financial shocks seems enviable, but it isn't cheap. “To keep growing at this rate, credit will have to do its part,” says Martin Redrado, the central bank president. Eventually, Argentine living standards will stagnate if credit is not given its due.

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Economics focus

A tale of two worlds

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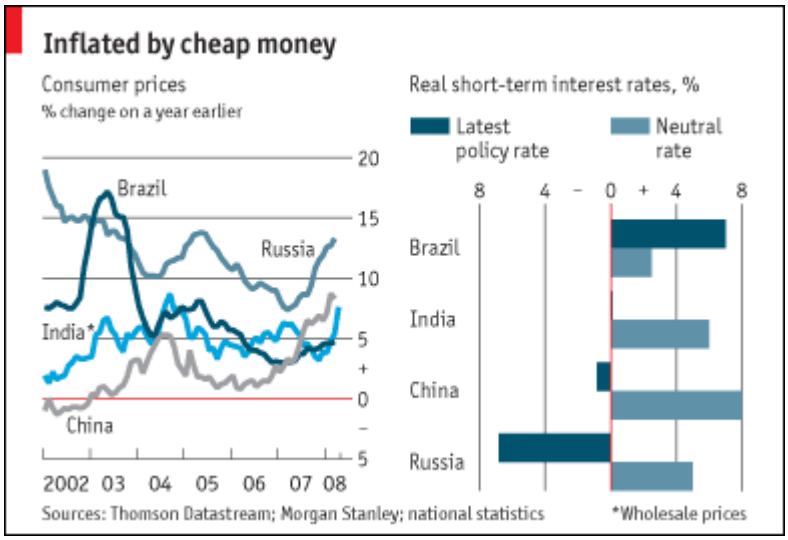
From The Economist print edition



If emerging economies diverge from America's, monetary policy also needs to break free

POLICYMAKERS in Washington and London have been losing sleep over the risks of financial meltdown and recession. In sharp contrast, the biggest worry in Beijing, Moscow and other emerging-market capitals is rising inflation. China's inflation rate has jumped to 8.3% from 2.2% in early 2007; Russia's is running at 13.3% (see left-hand chart). HSBC forecasts that the average inflation rate in emerging economies will rise to 6.6% this year, its highest in ten years.

One reason is the surge in food and energy prices. Food accounts for a bigger slice of spending in poor countries than in rich ones, so rising grain and meat prices have a bigger impact on inflation. But this is only part of the story: core inflation rates are also creeping up, and lax monetary policies are to blame.

As America stumbles, growth in emerging economies seems to be holding up well. HSBC forecasts average GDP growth of 6.5% this year, more than four times as fast as in developed countries. The problem is that although economies may have decoupled, their monetary policies have not. Whereas the greater resilience of the emerging world is a source of stability for the global economy, the monetary linkages between rich and poor economies complicate matters.

Emerging economies were partly to blame for America's housing and credit bubble. As China and Gulf oil exporters purchased American Treasury bonds in order to hold down their currencies, this pushed down bond yields and helped to fuel the housing boom. Low yields also encouraged investors to seek higher returns in riskier assets, such as mortgage-backed securities. That bubble has burst, prompting the Federal Reserve to slash interest rates. Now, those same exchange-rate policies that helped to cause America's financial crisis are leading emerging economies to run overly loose monetary policies.

Apart from the Gulf states, few countries still peg their currencies to the dollar, but most try to limit the amount of appreciation. This means that as the Fed cuts rates there is pressure on emerging economies to do the same, to prevent capital inflows pushing up their exchange rates. Saudi Arabia, the United Arab Emirates, Qatar and Bahrain have all followed the Fed's April 30th rate cut. In the face of rising inflation, emerging economies should be lifting interest rates, not cutting them, but their rigid currency policies make this hard. In turn, continued surging demand in emerging economies boosts commodity prices, which reduces Americans' spending power and so encourages the Fed to cut rates further. The more the Fed cuts, the bigger the risk of inflation in emerging markets.

The right-hand chart shows just how loose monetary policy is. Joachim Fels and Manoj Pradhan, of

Morgan Stanley, have made a stab at estimating neutral interest rates, ie, the short-term rates that would keep GDP growing at its trend pace and inflation on a stable path. The results are startling. In China and Russia, actual real rates are negative, against estimates of neutral real rates of 8% and 5% respectively. In India, real rates are close to zero—still far below the estimated neutral rate of 6%. Only in Brazil are real rates positive and above the neutral rate. Admittedly this ignores other tightening measures that central banks use, such as banks' reserve requirements (both India and China have been steadily increasing them). Nevertheless, it is no coincidence that Brazil has the lowest inflation rate of the four countries. Russia, with the lowest real interest rates, has the highest inflation.

Not so easy

The usual advice given to overheating emerging economies is that they must let their currencies rise. This would help to curb inflation by reducing import prices, and a flexible exchange rate would create more room for an independent monetary policy. Currency appreciation thus seems the obvious solution. However, Stephen King and Stuart Green, economists at HSBC, argue in a recent report that it raises many awkward questions.

How far should currencies rise in order to keep inflation in check? China has allowed the yuan to rise by 18% against the dollar since 2005. Brazil's currency has appreciated by more than 100% since 2003, yet even this has not stopped inflation from picking up. At 4.7%, the rate may be lower than other big developing countries, but it is still up from less than 3% a year ago, partly because of excessive growth in domestic demand. In the past two years real interest rates have fallen sharply (although they are still the highest in the world) and public spending has surged. In April the central bank raised interest rates for the first time in three years, but this is likely to lure in foreign capital. Should Brazil let its exchange rate rise further—when its current account has already moved back into deficit?

The danger of allowing these currencies to float is that they could overshoot as foreign capital floods in, eroding competitiveness and leaving economies vulnerable to a future reversal in capital flows. Another concern is whether it is wise to allow exchange rates to rise sharply when emerging-market exports are being hurt by an American recession.

There are no easy solutions. One alternative to a free float is a one-off appreciation. The danger is that this could encourage the expectation of further appreciation, attract even bigger capital inflows and so exacerbate inflation. To work, the revaluation would need to be so big that speculators no longer expected a further rise. But a big increase might not be politically feasible. Another solution is to tighten fiscal policy. This would cool domestic demand without the need for a big rise in interest rates. The snag is that it would boost domestic saving and hence lead to larger current-account surpluses—the opposite of what America requires.

The third option, and the one most likely to be pursued, is to do nothing apart from slapping on some temporary price controls, and hope that inflation pressures will soon ease. The risk is that if inflation continues to rise, policymakers will eventually have to slam on the monetary brakes.

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Myalgic encephalomyelitis

The roots of chronic fatigue

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Eyevine

ME is a puzzling illness, but it appears to have a biological basis and a test for it could be developed

A DISEASE that carries with it a social stigma causes additional and unnecessary suffering. This has often been so with myalgic encephalomyelitis (ME), or chronic-fatigue syndrome, as it is also known. Despite debilitating symptoms, patients have been accused of suffering from an imaginary illness: “yuppie flu”. Doctors have struggled to distinguish the ailing from the malingering. Nonetheless, evidence has grown in recent years that the syndrome is real, and now there is news that it has its roots in genetics.

ME manifests as extreme exhaustion, something that may include a range of other symptoms, such as disturbed sleep, difficulties in remembering and concentrating, headaches, and painful muscles and joints. Psychological symptoms, such as anxiety and irritability, can also be present. As the symptoms can vary in severity, the syndrome can be hard to identify, and patients can suffer for months before a diagnosis is made.

However, new hope for ME sufferers arrived this week at a conference in Cambridge, in Britain. The event, organised by ME Research UK and the Irish ME Trust, two charities that help to fund studies and assist sufferers, was attended by researchers investigating what causes the illness and how it could be treated.

Jonathan Kerr of St George's University of London told the meeting that with his colleagues they have identified 88 genes which are expressed differently in the blood of patients who had been diagnosed with ME. Moreover, in studying the records of 55 patients with ME, they found that they could divide them into seven separate sub-types that consistently pair distinct genetic patterns with a combination and severity of patients' symptoms. This, says Dr Kerr, points to a biological basis for the illness and holds out hope that a blood test could be developed to identify its different forms. His group are now trying to find the biological markers that such a blood test would need to detect.

ME, myself, why?

One tactic for dealing with ME is to treat its symptoms with drugs that are already used against other diseases. Patients with some of the severest symptoms suffer from low blood pressure and have difficulty regulating their heartbeat. Julia Newton, of Newcastle University in Britain, says this is because of problems with their autonomic nervous systems, which is responsible for subconscious activities. In

studies using a magnetic-resonance imaging scanner, she found a build-up of acid in the muscles of ME patients when they took exercise. This can cause muscle weakness and pain. Dr Newton believes the build-up could be influenced entirely, or at least in part, by the degree to which the autonomic nervous system fails to properly maintain blood flow. It could also mean that drugs that already exist to help improve blood flow might also help some ME patients.

But what triggers ME? Some estimates put its occurrence at around one in 200 people in America and Britain. Sufferers are often in their 20s and 30s, and more women are affected than men. That it is so widespread suggests to some researchers that there are many causes, including exposure to certain viruses and other infectious diseases.

A long period of fatigue after suffering from an infectious disease is not unusual. At the conference, a team of Australian researchers speculated that many cases of ME are in fact cases of “post-infectious chronic fatigue”. Stephen Graves, of the Australian Rickettsial Reference Laboratory, said they had found a proportion of Australian ME sufferers may have a genetic predisposition to developing ME as a result of exposure to Q Fever or Flinders Island Spotted Fever. These are a pair of relatively uncommon diseases caused by two bacteria which can pass between animals and humans. If their hypothesis is correct, Dr Graves believes the incidence of ME in Australia may be reduced by greater public-health measures.

Although the trigger for most cases of ME may remain a mystery, the discovery of its biological roots and the promise of a test will bring hope of a diagnosis to sufferers. And, perhaps, inspire a sudden recovery in the malingerers.

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Epigenetics

Silencing of the lambs

May 8th 2008
From The Economist print edition

Abuse in childhood may change the way genes work

A FEW years ago, researchers in Montreal produced a disturbing finding. By the simple act of neglecting her young, a mother rat could permanently change the expression of genes in her offspring. Dams that licked their pups only infrequently—the rat equivalent of bad maternal care—sent their little ones off into the world with a more anxious disposition than rats with dams that had lavished care on them. What is more, this lack of attention, the researchers discovered, had chemically altered a gene controlling an important stress hormone.

It was a striking case of how nurture affects nature. And it made the researchers curious about whether the same could be happening in humans. Now, by studying the brains of suicide victims, they have begun to explore that question.

The field they are investigating is known as epigenetics. This is the interface between our genes, which are fixed, and our environment, which is ever-changing. Although people are born with a complement of genes that they are stuck with for life, those genes can be switched on and off—and this can make a world of difference. All the more harrowing, then, that simple things like dietary supplements and stress have been shown capable of throwing the switch.

Moshe Szyf and his colleagues at McGill University knew that around a fifth of people who die by their own hand suffered abuse in childhood. They found 13 such people whose brains had been donated to science, as well as the brains of 11 people who had died in accidents and had had normal happy childhoods. They compared the two groups.

Dr Szyf and his team looked at a gene that codes for ribosomal RNA, which helps control the manufacture of proteins. Protein synthesis is essential to the brain if it is going to generate new connections—in the process of learning something, say, or remembering it. They were especially interested in a part of the brain, the hippocampus, which is known to be influential in mood.

Genes get switched off when a chemical mark, a methyl group, is added to the DNA. When they examined these genes in the hippocampus, they discovered that, in the suicide group, many more of them had been methylated, or switched off; “frozen assets”, says Dr Szyf. In another part of the brain, the cerebellum, however, which is not involved in mood, there were no differences in the levels of methylation between the two groups. This suggests that the hypermethylation in the suicide group was not just a general difference, says Dr Szyf, but rather a response to something specific, such as abuse suffered in childhood. They published their findings this week in *Public Library of Science (PLoS) ONE*, an open-access scientific journal.

The research raises two big questions. Can altered methylation patterns be somehow detected in blood samples? Dr Szyf thinks so. He wonders if there may be clues in T cells, which are involved in immunity and which regularly communicate with the brain.

More important, though, if abuse in early life has caused hypermethylation, is whether there is any way to undo it. An intervention could be social, he says, or nutritional, or with drugs. Dr Szyf is hopeful: in the rats, at least, they were able to intervene and turn things around.

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Lie detectors

Whose pants on fire?

May 8th 2008
From The Economist print edition

The latest lie-detector trial suggests the best way to detect liars may be to lie

WHETHER it be changes in body language, sweaty palms or fluctuations in brain activity, no surrogate marker of deception has yet proved reliable enough to be admitted as evidence in a court of law. Yet as governments and other large shellers-out of cash know only too well, lies can also be expensive, which is why they continue to experiment with technologies that try to catch people out.

The latest is voice risk analysis (VRA), which, among others, Harrow Council in London is testing as a way of identifying fraudulent claims for social-security benefits. This week the council said that in the ten months from May 2007, when the system was installed, it had saved £420,000 ($828,000). VRA is not new. The version used in Harrow was developed by an Israeli company, Nemesysco, for use by the country's intelligence services to identify potential terrorists.

The system is said to operate by detecting changes in the sonic frequencies of people's voices that are caused by stress, and comparing these with a baseline created by their responses to unemotive questions, such as requests for their personal details. It places the changes on a spectrum of risk and, according to Capita, a firm which provided Harrow with the technology, operators then “form their own judgement of risk based on both the VRA technology and behavioural-analysis skills in which they are also trained.”

The cash saving suggests it works and the British government now plans for more councils to use lie detectors. However, the way it works is not necessarily obvious. If anything, a detector seems to act more like a placebo in medicine—inducing an effect in the mind of the recipient just by being there. Of the nearly 1,500 claimants who had taken part in the Harrow trial, nearly a third changed their mind about needing benefit when they were told they were being subject to VRA. The benefit that they decided not to claim made up the lion's share of the council's saving.

Mitchell Sommers, a psychologist at Washington University in St Louis, Missouri, with an interest in speech perception, says the findings confirm what other studies have shown about VRA: that it is not particularly good at detecting liars, but that it does act as an excellent deterrent. “These things do not work any better than chance,” he says. Yet in America, insurance companies regularly claim that VRA helps them to reduce fraud by around 90%.

Harrow is happy that VRA acts as a deterrent, but they do not say that is all it does. Amir Liberman, the chief executive of Nemesysco, denies that it works by chance and says his company's own research shows it is highly predictive of lying even when people are not informed their voice is being analysed. The system does not measure lying itself, he adds, but the emotion associated with lying.

Nevertheless, when American law-enforcement agencies ask Dr Sommers if they should invest in VRA, he tells them he will build them a device “that lights up and has all kinds of bells and whistles”, for half the price. He is not saying that any agency has actually sunk that low, but it raises a tricky moral question: is it all right to detect a liar with a lie?

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Animal behaviour

Naughty nesters

May 8th 2008
From The Economist print edition

How cuckoos trick their way into another bird's nest

CUCKOLDS are men whose wives gave birth to infants that were blatantly not their own. The well known trickery of the cuckoo, the bird from which “cuckold” is derived, is as a nest parasite—laying eggs for other birds to hatch and raise. New research suggests the cuckoo has another trick it uses to ruffle its victims' feathers.

Common cuckoos usually lay a single egg in the nest of a host bird. The eggs often look remarkably similar to the host's. Upon hatching, the cuckoo chick eliminates any of its potential rival chicks by pushing them or their eggs out of the nest. However, there is more to this elaborate deceit than is generally realised.

As far back as ancient times a similarity has been noted between many cuckoo species and hawks; in size, shape and plumage. More recently researchers have discovered that hawk-like markings are more prevalent in cuckoo species that engage in nest parasitism than in cuckoo species that do not. Nick Davies and Justin Welbergen at the University of Cambridge wondered whether this similarity was noticed by birds too.

They set up peanut feeding stations and over two years found that great and blue tits, both of which are not parasitised by cuckoos, were the main visitors. They then experimented by placing a mounted specimen of a sparrowhawk, cuckoo, dove, or duck, at the feeders for five minutes. The team report in the *Proceedings of The Royal Society* that the tits were as scared of cuckoos as they were of sparrowhawks, raising alarm calls and staying away from feeders at all costs. With the duck and dove they detected no such behaviour.

When Dr Davies covered the hawk-like markings on the cuckoo the tits treated it as if it were a duck or dove. Covering the same markings on the sparrowhawk had no such effect, but adding them to the dove caused the tits to treat the dove as they would a sparrowhawk or a cuckoo.

The authors argue that actual cuckoo hosts, such as meadow pipits, dunnocks and reed warblers, may have directed the evolution of the cuckoo's resemblance to hawks by attacking cuckoos that approached their nests. If a cuckoo with slightly hawk-like plumage caused hosts to delay or avoid an attack in the past, this would have favoured the evolution of hawk mimicry.

It is an arms race—and a matter of adapting and counter-adapting, explains Dr Welbergen. The better the cuckoo disguises its eggs and itself, the more host birds improve their ability to spot the impostor. Although such an evolutionary dynamic may seem like something that exists only in the wild, it is possible for it to happen in human society as well—between cuckolds and their cheating partners, constantly driving men to be better at detecting adultery and women to be better at getting away with it.

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Proteomics

Return to the fold

May 8th 2008
From The Economist print edition

Playing with proteins

FOR sheer adrenaline, the new computer game “foldit”, does not match the likes of “Grand Theft Auto IV”. But for the world's obsessive problem solvers, a three-dimensional Tetris which allows them to help design a new life-saving vaccine seems certain to be a hit.

“foldit” is the latest incarnation of a project, called Rosetta@home, that uses spare computer time, via a screensaver, to work out how proteins fold. Proteins are the building blocks of life inside cells; they are first made as long chains of molecules and work properly only after they have folded into their final shape. But understanding the rules of protein folding remains one of biology's central problems.

The existing program uses trial and error, and pre-programmed mathematical rules that govern folding as understood today. But users of the screensaver told David Baker, a biochemist at the University of Washington and lead scientist on Rosetta@home, they could do better. So Dr Baker, Zoran Popovic, a computer scientist at the University of Washington, and graduate students Seth Cooper and Adrien Treuille set about creating a compelling computer game.

Players use their computers to fold proteins. The more chemically stable the folded protein becomes, the more points the players are awarded. In trials of the game hundreds of players were given 40 protein puzzles to solve (for the trials, the folding solutions were already known). Many of the best players were not scientists but were able to find the correct structure faster than computers.

The next big step will be to give players proteins for which the optimal folding is not known. They will then be doing cutting-edge research in protein-structure prediction. If all goes well, the game will move on to protein design this summer, by including options that allow players to modify sections of the protein. This will allow them to design a protein that blocks the action of a virus.

Although this may strike some as a remarkable bit of scientific outsourcing, the group is adamant that players who make breakthroughs will share in the scientific glory. This places parents of young “foldit” enthusiasts in a quandary: should they tell their children to stop playing games and get on with their homework, or encourage them to continue playing and possibly share in a Nobel prize?

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Richard Nixon

The fuel of power

May 8th 2008
From The Economist print edition

Magnum Photos

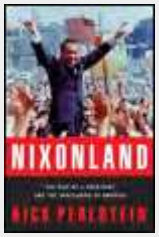
A fascinating biography argues that Americans supported Richard Nixon because of his anger and resentment, not despite it

IS THERE really room for another book on Richard Nixon? In the past two years alone there has been a doorstop of a biography by Conrad Black, a blow-by-blow account of Nixon's visit to China by Margaret MacMillan and a joint portrait of Nixon and Henry Kissinger by Robert Dallek. And those are only the notable ones.

The answer is that, if Rick Perlstein is the author, then there is certainly room. Mr Perlstein first came to attention in 2001 with his excellent study of Barry Goldwater, “Before the Storm”. His new book on Goldwater's successor as the Republican candidate for the presidency is every bit as good—a fluently written and carefully researched book that is bound to be the political hit of the season.

Nixon hardly has a reputation as Mr Normal. But it is still astonishing to be reminded of quite how odd Nixon and his circle were. He wore a necktie when he was in his dressing gown. He once visited his mother, camera crew in tow, to wish her a happy birthday—and shook her by the hand. He sent memos to his wife, Pat, about how “RN” would like his furniture arranged. Nixon matter-of-factly ordered H.R. Haldeman to draw up a list of the “big Jewish” contributors to the Democratic Party. “Could we please investigate some of the cocksuckers?” Chuck Colson, Nixon's general counsel who famously said that he would run over his grandmother for his boss, once contemplated firebombing the Brookings Institution, a stately think-tank, and then sending in FBI officers dressed as firemen to steal a document that Nixon wanted.

Nixonland: The Rise of a President and the Fracturing of America
By Rick Perlstein



Scribner; 896 pages; $37.50. To be published in Britain by Simon & Schuster in July

Buy it at
Amazon.com
Amazon.co.uk

What drove this extraordinary man? Boundless ambition was part of it. Nixon once told Leonard Garment, another adviser, that he was willing to do “anything” to get what he wanted—anything except “see a shrink”. But it was ambition turbo-charged with resentment. Nixon hated the liberal snobs who ran America—the holier-than-thou Ivy-League types who looked down on ordinary people while pretending to champion their cause—and he was never happier than when confronting them. He made his reputation pressing for the exposure of Alger Hiss, a senior State Department official, as a spy and a communist, and did battle with people like Adlai Stevenson, twice the Democrats' presidential nominee in the 1950s, and George McGovern, who was trounced in 1972. Nor was the loathing all one way. Hating Richard Nixon was almost the defining feature of American liberalism during his glory years.

But light struggled with dark in Nixon's soul. The dirty trickster also had a foreign-policy brain. Nixon had

little interest in home affairs: he was content to sub-contract what he called “building outhouses in Peoria” to bright liberals such as Patrick Moynihan. For Nixon the only thing that mattered was foreign policy. He and Mr Kissinger had a revolutionary view of foreign policy—one defined not by the cold-war categories of good versus evil but by the European notion of the balance of power, where the greater good of global order and control was paramount—even if that meant making a deal with China.

Mr Perlstein's biggest contribution to his subject is to set Nixon's private resentments in the context of a broader culture of resentment. “Nixonland” is a study of how the consensus of the early 1960s turned into the cacophony of the late 1960s, when “regular” white Americans found everything they held dear thrown into question: threatened by black activists, looked down upon by pointy-headed intellectuals, vilified by student radicals, corroded by a rising tide of lawlessness and vulgarity and fatally challenged not just by the anti-war movement but also by America's failure to achieve its aims in Vietnam. As far as Nixon's supporters were concerned, the swinging sixties were the seething sixties. Mr Perlstein rightly points out that many people supported Nixon not in spite of his boiling rage but precisely because of it.

“Nixonland” is also a study of how those resentments split the once triumphant Democratic Party into two warring factions. In the disastrous 1968 convention in Chicago the delegates could not even agree on which songs to sing. At one point one group started up with “You're a Grand Old Flag” while its rival belted out “We Shall Overcome”.

It is hard, in the current political season, to read this book without hearing the sound of history rhyming, to paraphrase Mark Twain. George McGovern's promise of “post-partisanship” galvanised America's youth. He trumpeted his opposition to the Vietnam war under the slogan of “right from the start”. He went on to suffer one of the biggest defeats in the general election in American history. “Dirty politics confused him,” Hunter S. Thompson sighed. Nixon chose “experience counts” as his campaign slogan in 1960 and boasted that he had spent “a lifetime getting ready”. He made up for his lack of personal charm by an almost deranged relentlessness. But this week's result suggests that these are only half-rhymes at best: Barack Obama has already met his Richard Nixon and slain her.

Nixonland: The Rise of a President and the Fracturing of America.
By Rick Perlstein.
Scribner; 896 pages; $37.50. To be published in Britain by Simon & Schuster in July

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Health care

No place to be sick

May 8th 2008
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A PLETHORA of current television programmes attests to a widespread fascination with those who work in hospitals and those they heal, or try to. Julie Salamon's year in the life of Maimonides Medical Centre in Brooklyn has a cast less beautiful than that of “Grey's Anatomy”, less witty than that of “Scrubs” and less foul-mouthed than that of “No Angels”. But with its careful documentation of financial crises, feuds, personality clashes and, most of all, life-and-death drama, it feeds the same appetite for pathos, intrigue, tragedy and redemption.

A surprising amount of what Ms Salamon has to tell of her year of untrammelled access to staff and patients has little to do with healing the sick. She attends lectures on the role of spirituality in medical care. She learns about the hospital's new “Code of Mutual Respect”—an attempt to get consultants to stop swearing and throwing things at nurses and junior doctors. And, again and again, she witnesses the effects of “diversity on steroids”, as she terms the bewildering variety of people treated by a hospital founded to serve Orthodox Jews and now dealing with patients from a huge variety of ethnic and religious groups, while still struggling mightily to satisfy its main intended beneficiaries. Some staff tell her they are sick of multiculturalism and ethnic competences (“all just crap”). Others, less jaded, offer kooky observations: Chinese women come into the labour wards just before midnight (as restaurants close), Pakistanis in the small hours (as taxi-drivers come off shift) and Hasidic Jews at 10pm (no one knows why).

Hospital: Man, Woman, Birth, Death, Infinity, Plus Red Tape, Bad Behavior, Money, God, and Diversity on Steroids
By Julie Salamon

Penguin; 363 pages; $25.95

Buy it at Amazon.com

Not all of the cast of thousands are engrossing and the level of detail sometimes confuses more than it illustrates. But the fine grain of Ms Salamon's observations allows her to paint a compelling—and damning—portrait of a dysfunctional health-care system. She describes the chaotic emergency room, with patients waiting in holding patterns like aircraft at a busy airport, and the “frequent flyers”, as the staff call those they send away with prescriptions for medicines these patients cannot afford, knowing they will soon be back in a bad way once more.

She meets uninsured patients with seven-figure bills, destined never to be paid, who know that only if they stay do they retain the right to be treated. (The hospital can force them to leave only if they can do so on their own two feet.) And she meets some whose stay will be tragically brief, because lack of insurance has kept them away from doctors until it is too late. One such is a young mother from the Dominican Republic without papers but with cancer that is already terminal before she seeks medical help. She dies so quickly that there is little the hospital's staff can do other than help her relatives arrange care for her three small children.

Those in the rich world who do not die in hospital will surely see someone they love do so, and the sight, Ms Salamon shows all too clearly, will be hard to bear. “Too often they died feeling abandoned and alone, shielded from fear by neither science nor God nor the reassurance of a doctor who seemed to care about them,” she says of the people whose ends she witnessed. She does meet some doctors who understand that, when the time comes, they should stop trying to fix the unfixable and “follow the patient down the vale of tears”—but far, far too few.

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Hunting at sea

Blood and guts

May 8th 2008
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THE hunting, in turn, of the right whale, the blue, the sperm, the minke and the humpback form the backbone of this entertaining and interesting book by Andrew Darby, an environmental reporter on the *Sydney Morning Herald*. With each species he builds up the reader's fascination further, before delivering a (mostly unhappy) account of its fate.

Mr Darby produces some horrifying facts, beginning with Soviet whalers. While most other nations were winding down their harpooning operations because too few whales remained for any profit to be made, between 1959 and 1963 the Soviet Union built a new factory fleet every year. “A barren desert must remain where the *Slava* has operated,” one fleet's captain-director ordered his crew. “Catch all whales you meet—small size, sucklings and lactating females all alike.”

The crushing momentum of the Soviet command economy is well portrayed, as is the detailed account of Japan's stance on whaling. The confluence of beliefs and personalities behind the deep cultural divide is lit by the author's own experiences in Japan. Here, as throughout the book, Mr Darby sketches the extraordinary characters he encounters with humour as dry as his native outback.

Harpoon: Into the Heart of Whaling
By Andrew Darby

Da Capo Press; 300 pages; $25. To be published in Britain by Orion in October

Buy it at
Amazon.com
Amazon.co.uk

The story of Norway's hard-nosed position is intercut with the saga of Keiko, the killer whale that was made famous by the “Free Willy” films and later returned to the open sea off Iceland. And wild tales from the last English-speaking whaling station in Albany, Western Australia, are a reminder that whaling fever can strike anywhere. The wranglings of the International Whaling Commission rapidly become as riveting as a courtroom thriller.

The birth of the anti-whaling movement from the depths of the 1970s American counterculture is traced to a boatload of anti-nuclear protesters listening to whale-song recordings while on LSD. Early Greenpeace voyages to save the whales were guided by I Ching, a Chinese system of divination, and “interspecies communicators” who followed moonbeams. But the movement grew up fast and in 1982 it won a global moratorium on whaling.

Enter Paul Watson, founder of the Sea Shepherd conservation group. Considered by Greenpeace contemporaries to be “too much warrior, not enough rainbow”, Mr Watson's confrontations with the Japanese in the Southern Ocean are by turns terrifying and hilarious.

Mr Darby takes the reader deep into the whaling issue. To the environmentally-minded West, whales are a conservation cause. Nevertheless, Norway and Iceland, together with Japan, have killed 30,000 whales since the moratorium came into effect in 1986. Now the growing appreciation of whale intelligence and sentience has added an ethical dimension to the issue. To the Japanese, whaling symbolises a tradition of seafood that is central to their culture, and they are campaigning hard for the moratorium to be lifted, citing evidence that stocks are starting to recover. Ethics has no part to play, they argue, for if concern for animal rights can stop the harvesting of whales, when will compassion prevent the netting of fish?

Harpoon: Into the Heart of Whaling.
By Andrew Darby.
Da Capo Press; 300 pages; $25. To be published in Britain by Orion in October

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Château Lafite

A mystery uncorked

May 8th 2008
From The Economist print edition

DECEMBER 5th 1985 will for ever have a place in wine lore. On that day Christie's auctioned a bottle of 1787 Château Lafite Bordeaux, thought to have once been part of Thomas Jefferson's cellar, and part of a cache of bottles said to have been recently unearthed from a Paris house. The sale price for lot 337, $156,000, was five times the previous record for a normal-sized bottle of wine.

The buyer, Malcolm Forbes, was at first incensed that his son, Kip, bidding on his behalf, had paid so much. But the sale caused such a stir that the publicity-seeking billionaire concluded that it was a price worth paying for a piece of history, and proudly put the dirt-encrusted vessel on display.

Doubts over the wine's provenance soon emerged, though. Jefferson, who meticulously recorded his transactions, had never mentioned buying any such wine. The discoverer of the Jefferson bottles, a German pop-band manager turned wine dealer called Hardy Rodenstock, would not say who had sold them to him, or even how many were in the cache. The record-breaking bottle had, some muttered, suffered suspiciously little ullage (evaporation). To others, something about the initials engraved on it, “Th.J”, did not seem quite right.

For a while, Mr Rodenstock was able to keep the doubters at bay. It helped that he was championed by the auctioneers' respected wine supremo, Michael Broadbent, owner of the world's most experienced palate, which had tasted 40,000 different wines. Others, too, drooled as Mr Rodenstock displayed an extraordinary talent for digging up rare Yquems, Margaux, Lafites and Moutons (he was known as “Monsieur Yquem” on account of his passion for sweet white Bordeaux). Oenophiles flocked to his increasingly lavish “verticals”—tastings of many vintages from a particular chateau—hoping to be one of those whom he called from time to time, offering an antique bottle at a “friendship” price.

But, as prices for rare wines shot up in the late 1980s, fuelled by rising American demand, so did fears over wine piracy. Dodgy bottles started appearing almost weekly. Of those exposed as fakes, a remarkable number could be traced back to the enigmatic Mr Rodenstock.

He might have got away with it, were it not for an uppity Florida tycoon, Bill Koch, who had bought four of the Jefferson bottles. Unable to live with the feeling that he might have been defrauded, Mr Koch threw money at a team of investigators to root out the truth. Forensic experts concluded that the engraving on the labels had been made with a modern power tool, not an 18th-century implement.

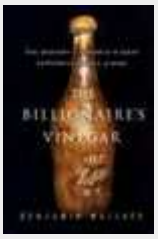
A tip-off led to the basement of a house recently vacated by Mr Rodenstock and the discovery of piles of blank labels, corks and other counterfeiter's paraphernalia. In 2006 Mr Koch sued the German (whose real name, it turned out, was Meinhard Goerke) for fraud.

The rare wine world is still recovering from the tawdry affair. Mr Rodenstock, for many years considered its boldest bottle hunter, turned out to be “the Konrad Kujau of the grapevine”, as one newspaper put it, referring to the faker of the Hitler diaries.

This is a gripping story, expertly handled by Benjamin Wallace who writes with wit and verve, drawing the reader into a subculture strewn with eccentrics and monomaniacs. “The Billionaire's Vinegar” is full of detail that will delight wine lovers. It will also appeal to anyone who merely savours a great tale, well told. Unlike Monsieur Yquem's dodgy plonk, this book is the genuine article.

The Billionaire's Vinegar: The Mystery of the World's Most Expensive Bottle of Wine.

The Billionaire's Vinegar: The Mystery of the World's Most Expensive Bottle of Wine
By Benjamin Wallace



Crown; 319 pages; $24.95 and £14.99

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By Benjamin Wallace.
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Rhodes scholarships

Redemption by bequest

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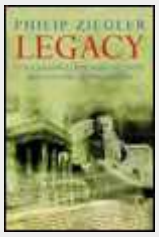
From The Economist print edition

IN 1871, at the age of 18, an apparently unambitious son of a Hertfordshire vicar left his brother's farm in Natal, South Africa, for the diamond fields of Kimberley. Barely 16 years later, Cecil Rhodes had become a towering figure in finance and mining, a transformation achieved through skill and courage, and, in no small measure, bribery and ruthlessness.

He also managed during this time to spend nine terms as an undergraduate at Oxford, where he was not noted for brains, games, industry or anything else. Nonetheless, he was to leave a large part of his fortune to pay for scholars from abroad to attend his old university. The Rhodes scholarships are perhaps the world's most celebrated, winning a renown for their founder after his death far greater than the opprobrium he earned during his life.

Rhodes believed that the Anglo-Saxons were the finest of all races, and the British empire was God's instrument to maximise their influence. He himself did his utmost to extend the empire in Africa. The scholars would continue the work, there and farther afield. They should be intelligent, he made clear in his will, but not “mere bookworms”. Also important were “manly outdoor sports”, qualities such as protection of the weak, unselfishness and fellowship, and the instinct to lead.

Legacy: Cecil Rhodes, the Rhodes Trust and Rhodes Scholarships
By Philip Ziegler



Yale University Press; 400 pages; £25. To be published in America by Yale in July

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Plainly they would be very different from Rhodes himself. But that was not the only oddity of his bequest: his low opinion of academics was hard to reconcile with his zeal for a university education. And the inclusion of America among the countries that would send their finest to grease the wheels of Britain's empire was another peculiarity. Germany was even stranger. Yet the reason “the Rhodes scholarships are still exceptional lies in the vision of their creator.”

That is the view of their chronicler, Philip Ziegler, and he gives them pretty high marks. Famous names certainly abound among the former scholars: Robert Penn Warren (novelist and poet), Edwin Hubble (of telescope fame), Adam von Trott zu Solz (hanged for trying to kill Hitler), John Fairbank (eminent sinologist), Ernst Schumacher (small is beautiful), Bob Hawke (an Australian prime minister), two Nobel-prize-winning scientists and plenty more, including Bill Clinton.

Not all the 7,000-plus have found fame, but that was not Rhodes's intention: he wanted men “of moral force and character”. Some had that in spades, though not all used it for ends that would have delighted Rhodes. Norman Manley, who negotiated Jamaica's independence, hardly fitted the imperial ideal, nor did Dom Mintoff, a Maltese socialist who often irked the British, though for a time he favoured Malta's integration with Britain.

Mr Ziegler shows how the scholarships have moved with the times, most recently in the setting up in 2003 of the Mandela Rhodes Foundation, which brings some of Rhodes's De Beers riches back to the service of the South African majority. It could have been a dry tale, but, breaking the story up into bite-sized chapters, Mr Ziegler satisfies every appetite, putting the evolution of the scholarships in the context of a changing world, bringing to life the many people in the story and all the while finding apt and amusing things to say about them. He cites, for instance, as an example of the all-round man so admired by Rhodes, one Edward Selig. Was it true, asked the Library of Congress, that Mr Selig had really written one book on Thomas Carew, a 17th-century love poet, and another on economic incentives for pollution control? Yes, confessed Mr Selig, pointing out “the underlying continuity, since both books were essentially concerned with nocturnal emissions”.

Legacy: Cecil Rhodes, the Rhodes Trust and Rhodes Scholarships.

By Philip Ziegler.
Yale University Press; 400 pages; £25. To be published in America by Yale in July

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Philip Guston

The man who changed his mind

May 8th 2008 | NEW YORK
From The Economist print edition

Philip Guston was one of the rare artists who turned from abstractionism back to figurative painting. A new show illustrates why this was important

DESPITE the many twists taken by modern art in the 20th century, its advancement always seemed linear and irrefutable. Progress meant moving away from figurative works and towards abstraction.

Piet Mondrian and Wassily Kandinsky pointed the way forward, distilling form into a more “honest” art, free of the gauche literalism of an object. By the 1950s the embrace of abstraction was nearly universal: it became a symbol of post-war freedom, the opposite of the treacly folk art favoured by the Nazis. The energy and vitality of those sexy, hard-living abstract expressionists, with their virile paintings of soaked and splashed colour, promised to seal the deal of art's future. But then Philip Guston decided not to play along.

Guston, born in 1913, was a poster child of abstract expressionism. Born Phillip Goldstein in Montreal and brought up in Los Angeles, he followed his old friend Jackson Pollock to New York in 1935. Revering Italian Renaissance painters, he whittled down his earlier figurative work into something more essential and visceral, losing the object altogether. In the 1950s and 1960s he covered large canvases with vigorous brushstrokes and lush blooms of saturated colour, earning rich admirers, solo shows and copycats. But in 1970 he shocked the art world with a show of politicised, cartoonish paintings, many with figures in Ku-Klux-Klan-like hoods.

Critics gasped and friends abandoned him (except for Willem de Kooning, who argued that the show was about “freedom”). “I got sick and tired of all that purity!” Guston explained. “Wanted to tell stories!” The conflict Guston experienced before renouncing abstraction was fraught. It took him years to abandon the detachment of simple lines and captured movement. Yet he also wanted to avoid the blithe commercialism of Pop Art. He parsed this transition in drawings, and stopped painting altogether between 1966 and 1968. “[P]ainting is ‘impure’,” he argued, tired of righteous claims otherwise. “We are image-makers and image-ridden.”

Hardly any abstract artist had returned to figurative work before. “Philip Guston: Works on Paper” includes some 100 drawings that date from the mid-1940s until Guston's death in 1980. Organised by the Staatliche Graphische Sammlung in Munich and the Kunstmuseum in Bonn, where it first opened in March 2007, the New York version of the show concentrates on his ambivalence about abstraction, and makes a convincing case for the importance of drawing in his work.

“Drawings helped him go in a new direction,” explained Isabelle Dervaux, the curator. “It was his way of experimenting with new ideas, and his basis for making art.” The works illustrate Guston's turbulent “tug-of-war” between what he called his “pure” abstract drawings and his drawings of objects. The first pieces from the late 1940s include some identifiable eyes, feet and hands. But these soon morph into his “Untitled” works from the 1950s, with energised black lines and squiggles on paper. His hand is sure, sharp and fluid. Two important works from this period are unique to the New York show, on loan from local private collections.

By the late 1950s, though, figures start creeping back in, along with titles that evoke a narrative, like “Head—Double View” from 1958 and “Celebration” from 1961. His line becomes bolder. “What would happen, I thought, if I eliminated everything except just raw feeling and the brush and ink, the simplest of means without the seduction of colour,” he said just before he died. “It was like testing myself, to see what I am, what I can do.”

The minimalist works that resulted are some of Guston's most visually arresting. With just a black line on paper, he manages to energise the full surface, creating a sense of space and heft. But this was not enough for him. Morton Feldman, a composer, once told an illuminating story about his friend Guston.

The two men were looking at one of his paintings of two elongated black shapes on a white background. “That one on the left,” Guston reportedly said, “is telling the other one his troubles.” He craved the comfort of the tangible world—of things, of gravity, of stories.

The second room in the show is full of his drawings dating from 1968 on. Many of these pictures—of sinister heads and hands, and ordinary boots, clocks and sandwiches—are painted in that distinctive fleshy pink of his, at once cheerful and bloody. He drew them with dark outlines, like moody comic strips, but they are also sinister. The Vietnam war was raging on and the president, he thought, was an embarrassment. Guston was no longer satisfied with black marks on paper. Time was running out, he felt, and he still had stories to tell.

“Philip Guston: Works on Paper” is at the Morgan Library & Museum, New York, until August 31st

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Albert Hofmann

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From The Economist print edition

Reuters

Albert Hofmann, chemist, died on April 29th, aged 102

HIS first experience was “rather agreeable”. As he worked in the Sandoz research laboratory in Basel in Switzerland on April 16th 1943, isolating and synthesising the unstable alkaloids of the ergot fungus, Albert Hofmann began to feel a slight lightheadedness. He could not think why. His lab was shared with two other chemists; frugality and company had taught him careful habits. And this was a man whose doctoral thesis had revolved around the gastrointestinal juices of the vineyard snail.

Perhaps, he supposed, he had inhaled the fumes of the solvent he was using. In any event, he took himself home and lay down on the sofa. There the world exploded, dissolving into a kaleidoscope of colours, shapes, spirals and light. It seemed to have something to do with lysergic acid diethylamide, LSD-25, the substance he had been working on. He had synthesised it five years before, but had found it “uninteresting” and stopped. Now, like some prince in faery, he had got the stuff on his fingertips, rubbed it into his eyes and seen the secrets of the universe.

The next Monday, ever the good scientist, he deliberately took 0.25 milligrams of LSD diluted with 10cc of water. It tasted of nothing. But by 5 o'clock the lab was distorting, and his limbs were stiffening. The last words he managed to scrawl in his lab journal were “desire to laugh”. That desire soon left him. As he cycled home with a companion, perhaps the most famous bike ride in history, he had no idea he was moving. But in his house the furniture was ghoulishly mutating and spinning, and the neighbour who brought him milk as an antidote was “a witch with a coloured mask”. He realised now that LSD was the devil he couldn't shake off, though in his senseless body he screamed and writhed on the sofa, certain that he was dying.

After six hours it left him. The last hour was wonderful again, with images “opening and then closing themselves in circles and spirals, exploding in coloured fountains.” Each sound made colours. His doctor found nothing physically wrong with him, except for extremely dilated pupils. The substance evidently left the body quickly, and caused no hangover. But the mind it flung apart, reassembled and profoundly changed, leaving him the next morning as fresh as a newborn child.

Over the next decades, Mr Hofmann took an awful lot of LSD. He ingested it listening to Mozart and looking at red roses. He learned not to take it when tired, or with amphetamines (a very bad trip). As head of the natural products division at Sandoz, he revelled in its potential for psychiatry. Though he also developed derivatives of ergot that helped circulation and respiration, and had a drawerful of useful pharmaceuticals to his name, it was LSD that filled him with “the joy of fatherhood”. And the sense it had given him, of union with nature and of the spiritual basis of all creation, convinced him that he had found a sacrament for the modern age: the antidote to the ennui caused by consumerism, industrialisation and the vanishing of the divine from human life.

Yellow and purple and green

It proved disastrous for him that Timothy Leary at Harvard had the same idea. When the professor told his students in the 1960s that LSD was the route to the divine, the true self and (not least) great sex, use of the drug became an epidemic. People ingested it, in impure forms, from sugar cubes and blotting paper. They blamed it for accidents, murders and wild attempts to fly. The media flowered in psychedelic shades of orange, purple, yellow and green, and in the melting shapes and dizzying circles of a world gone almost mad. Mr Hofmann in 1971 met Leary in the snack bar at Lausanne station; he found him a charmer, but because of his carelessness LSD had by then been banned in most countries, and production and research had been stopped. They never resumed.

Mr Hofmann turned his chemist's attention to other things: the Mexican magic mushroom, whose active compounds he synthesised into little white pills, and the LSD-like properties of the seeds of the blue morning-glory flower. He continued his self-experiments with both of them—noting that on his mushroom trip his very German doctor became an Aztec priest who seemed about to slice his chest open with an obsidian knife. He loved his work, but still mourned the disappearance of his “problem child”. LSD, treated with respect, could have powerfully instructed men and women in the glories of the spiritual dimension of life. But they had abused it, so it had given them terrors instead.

Without it, however, Mr Hofmann knew it was still possible to get to the same place. As a child, wandering in May on a forest path above Baden in a year he had forgotten, he had suddenly been filled with such a sense of the radiance and oneness of creation that he thought the vision would last for ever. “Miraculous, powerful, unfathomable reality” had ambushed him elsewhere, too: the wind in a field of yellow chrysanthemums, leaves in the sunlit garden after a shower of rain. When he had drunk LSD in solution on that fateful April afternoon he had recovered those insights, but had not surpassed them. His advice to would-be trippers, therefore, was simple. “Go to the meadow, go to the garden, go to the woods. Open your eyes!”

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Overview

May 8th 2008
From The Economist print edition

America's jobs market is less fragile than had been feared. Employers, excluding farms, cut 20,000 from their payrolls in April—fewer than in the previous three months, when the headcount dropped by an average of 80,000 per month. The unemployment rate edged down from 5.1% to 5%, reflecting an increase in the number of part-time workers.

Job cuts and shorter hours lifted **productivity growth** in the first quarter. Output per hour in America's non-farm businesses rose at an annualised rate of 2.2%, up from 1.8% in the final three months of 2007. That helped cap unit wage costs, which slowed from an annualised rate of 2.8%, to 2.2%.

Retail sales in the **euro area** in March fell by 0.4% and by 1.6% from a year earlier. Sales volumes in Spain fell for the fourth successive month, leaving them 5.3% lower than in March 2007.

Industrial production in **Britain** fell by 0.5% in March, leaving it just 0.2% higher than a year earlier.

Bank **Indonesia** became the latest Asian central bank to tighten monetary policy. On May 6th it unexpectedly raised its benchmark interest rate from 8% to 8.25%.

The outlook for America's economy has stopped deteriorating, according to *The Economist's* **monthly poll of forecasters**. GDP is expected to grow by 1.7% next year, an unchanged forecast from a month ago.

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Output, prices and jobs

May 8th 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q1	+0.6	+1.1	+1.7	+1.6 Mar	+4.0 Mar	+2.8	+3.5	5.0 Apr
Japan	+2.0 Q4	+3.5	+1.3	+1.5	−0.4 Mar	+1.2 Mar	−0.1	+0.9	3.8 Mar
China	+10.6 Q1	na	+9.6	+9.0	+17.8 Mar	+8.3 Mar	+3.3	+5.9	9.5 2007
Britain	+2.5 Q1	+1.6	+1.7	+1.7	+0.2 Mar	+2.5 Mar§	+3.1	+2.6	5.2 Feb††
Canada	+2.9 Q4	+0.8	+1.4	+2.1	−2.9 Feb	+1.4 Mar	+2.3	+1.8	6.0 Mar
Euro area	+2.2 Q4	+1.6	+1.6	+1.5	+3.1 Feb	+3.3 Apr	+1.9	+3.0	7.1 Mar
Austria	+3.0 Q4	+2.3	+2.3	+2.3	+4.7 Feb	+3.5 Mar	+1.8	+2.3	4.1 Mar
Belgium	+2.1 Q1	+1.6	+1.7	+1.7	+5.7 Feb	+4.2 Apr	+1.8	+2.9	10.3 Mar‡‡
France	+2.1 Q4	+1.5	+1.5	+1.5	+1.9 Feb	+3.2 Mar	+1.2	+2.7	7.5 Q4§§
Germany	+1.8 Q4	+1.1	+1.7	+1.6	+5.9 Feb	+2.4 Apr	+2.1	+2.6	7.9 Apr
Greece	+3.6 Q4	+2.8	+2.6	+3.1	−4.2 Feb	+4.4 Apr	+2.5	+3.9	8.0 Jan
Italy	+1.9 Q3	+1.7	+0.6	+1.0	−0.8 Feb	+3.3 Apr	+1.5	+2.8	6.0 Q4
Netherlands	+4.5 Q4	+4.8	+2.5	+1.9	+0.7 Feb	+2.2 Mar	+1.8	+2.3	4.0 Mar††
Spain	+3.5 Q4	+3.2	+2.2	+1.8	−13.3 Mar	+4.5 Mar	+2.5	+3.6	9.3 Mar
Czech Republic	+6.6 Q4	+7.0	+4.7	+5.4	+11.3 Feb	+7.1 Mar	+1.9	+6.5	5.6 Mar
Denmark	+1.9 Q4	+1.2	+1.5	+1.6	−2.5 Mar	+3.1 Mar	+2.0	+2.9	1.9 Mar
Hungary	+0.8 Q4	+0.5	+2.4	+3.6	+4.3 Mar	+6.7 Mar	+9.0	+5.9	8.0 Mar††
Norway	+4.7 Q4	+5.2	+2.9	+2.5	+4.0 Mar	+3.2 Mar	+1.1	+3.6	2.4 Feb***
Poland	+6.1 Q4	na	+5.1	+4.3	+0.9 Mar	+4.1 Mar	+2.5	+4.0	11.1 Mar‡‡
Russia	+8.0 Q1	na	+7.1	+6.2	+6.5 Mar	+13.3 Mar	+7.4	+13.0	6.4 Mar‡‡
Sweden	+2.8 Q4	+3.1	+2.3	+2.1	+0.8 Mar	+3.4 Mar	+1.9	+3.0	6.3 Mar‡‡
Switzerland	+3.6 Q4	+4.2	+2.1	+1.7	+9.1 Q4	+2.3 Apr	+0.5	+2.0	2.6 Apr
Turkey	+3.4 Q4	na	+4.1	+5.2	+2.4 Mar	+9.7 Apr	+10.7	+9.0	10.1 Q4‡‡
Australia	+3.9 Q4	+2.4	+3.0	+2.9	+0.1 Q4	+4.2 Q1	+2.4	+3.5	4.2 Apr
Hong Kong	+6.7 Q4	+6.6	+4.9	+5.6	−0.3 Q4	+4.2 Mar	+2.4	+4.3	3.4 Mar††
India	+8.4 Q4	na	+7.8	+7.2	+8.6 Feb	+7.9 Mar	+6.7	+5.8	7.2 2007
Indonesia	+6.3 Q4	na	+5.9	+6.2	+7.5 Feb	+9.0 Apr	+6.3	+7.8	9.1 Dec
Malaysia	+7.3 Q4	na	+5.8	+5.8	+6.6 Feb	+2.8 Mar	+1.5	+2.8	3.0 Q4
Pakistan	+7.0 2007**	na	+5.0	+5.3	+8.7 Jan	+14.1 Mar	+7.7	+9.4	6.2 2006
Singapore	+7.2 Q1	+16.9	+4.4	+4.7	+16.9 Mar	+6.7 Mar	+0.7	+4.3	2.0 Q1
South Korea	+5.7 Q1	+2.9	+4.5	+4.3	+10.0 Mar	+4.1 Apr	+2.5	+2.9	3.1 Mar
Taiwan	+6.4 Q4	na	+4.3	+4.3	+8.2 Mar	+3.9 Apr	+0.7	+2.6	3.9 Mar
Thailand	+6.0 Q1	na	+4.7	+4.3	+10.1 Mar	+6.2 Apr	+1.8	+5.0	1.5 Feb
Argentina	+9.1 Q4	+8.0	+6.2	+4.5	+5.2 Mar	+8.8 Mar	+9.1	+10.3	7.5 Q4‡‡
Brazil	+6.2 Q4	+6.4	+4.6	+4.0	+1.2 Mar	+4.7 Mar	+3.0	+5.1	8.6 Mar‡‡
Chile	+4.0 Q4	+3.7	+3.6	+3.4	−1.0 Mar	+8.5 Mar	+2.6	+6.7	7.6 Mar††††
Colombia	+8.1 Q4	+6.8	+5.0	+4.5	+8.8 Feb	+5.7 Apr	+6.3	+5.5	12.0 Feb‡‡
Mexico	+3.8 Q4	+3.0	+2.1	+2.5	+5.4 Feb	+4.3 Mar	+4.2	+4.3	3.8 Mar‡‡
Venezuela	+8.5 Q4	na	+6.0	+4.5	+2.5 Jan	+29.1 Mar	+18.5	+28.2	6.7 Q4‡‡
Egypt	+8.1 Q4	na	+7.0	+6.8	+7.5 2007**	+14.4 Mar	+12.8	+10.9	9.0 Q4‡‡
Israel	+6.8 Q4	+6.4	+3.6	+3.9	+3.8 Feb	+3.7 Mar	−0.9	+3.4	6.8 Q4
Saudi Arabia	+3.5 2007	na	+6.0	+5.6	na	+9.6 Mar	+2.9	+8.5	na
South Africa	+4.6 Q4	+5.3	+4.1	+4.8	+3.5 Feb	+10.6 Mar	+6.1	+7.5	23.0 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+4.8 Q4	+3.2	+4.0	+4.3	−4.9 Mar	+11.4 Apr	+5.5	+9.0	5.3 Feb
Finland	+3.7 Q4	+3.8	+2.7	+2.7	+2.5 Mar	+3.9 Mar	+2.6	+3.0	6.2 Mar
Iceland	+4.6 Q4	+1.4	+1.4	+2.6	+0.4 2007	+11.8 Apr	+5.3	+7.5	1.0 Mar‡‡
Ireland	+3.5 Q4	−3.3	+2.4	+2.4	+1.0 Feb	+5.0 Mar	+5.1	+3.0	5.5 Apr
Latvia	+8.0 Q4	na	+4.0	+4.2	−5.5 Mar	+16.8 Mar	+8.5	+13.2	4.9 Mar
Lithuania	+6.4 Q1	−0.8	+7.2	+6.4	na	+11.3 Mar	+4.6	+8.8	4.7 Mar‡‡
Luxembourg	+5.6 Q3	+2.8	+4.7	+4.8	+4.9 Feb	+3.5 Mar	+2.1	+3.7	4.2 Mar‡‡
New Zealand	+2.8 Q4	+3.1	+1.9	+2.5	+4.2 Q4	+3.4 Q1	+2.5	+2.9	3.6 Q1
Peru	+11.9 Feb	na	+6.9	+6.6	+13.4 Feb	+5.5 Apr	−0.1	+4.2	10.5 Feb‡‡
Philippines	+7.3 Q4	+7.4	+5.4	+5.5	+0.5 Jan	+8.3 Apr	+2.3	+5.8	7.4 Q1‡‡
Portugal	+2.0 Q4	+3.0	+1.5	+1.6	+6.9 Mar	+3.1 Mar	+2.3	+2.4	7.8 Q4‡‡
Slovakia	+14.3 Q4	na	+7.5	+5.7	+11.5 Feb	+4.2 Mar	+2.7	+3.5	7.6 Mar‡‡
Slovenia	+4.7 Q4	na	+4.5	+4.0	+7.3 Feb	+6.5 Apr	+2.6	+5.2	7.1 Feb‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 3.8% in Mar. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series. ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

May 8th 2008
From The Economist print edition

The Economist commodity-price index

2000=100

	Apr 29th	May 6th*	% change on one month	% change on one year
Dollar index				
All items	257.9	255.4	–0.6	+25.9
Food	253.9	251.5	–0.6	+61.3
Industrials				
All	263.1	260.3	–0.7	–1.3
Nfa†	192.3	193.3	+0.4	+22.2
Metals	301.9	296.9	–1.0	–7.6
Sterling index				
All items	198.4	195.9	–1.0	+26.7
Euro index				
All items	152.8	151.8	+0.4	+9.4
Gold				
$ per oz	877.90	879.60	–5.3	+28.2
West Texas Intermediate				
$ per barrel	115.57	121.84	+12.0	+95.9

*Provisional †Non-food agriculturals.

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The Economist poll of forecasters, May averages

May 8th 2008
From The Economist print edition

The Economist poll of forecasters, May averages (previous month's, if changed)

	Real GDP, % change Low/high range		Real GDP, % change average		Consumer prices % increase		Current account % of GDP	
	2008	2009	2008	2009	2008	2009	2008	2009
Australia	2.2/3.6	2.5/3.8	3.0	2.9 (3.0)	3.5 (3.3)	2.8 (2.7)	−5.9 (−6.1)	−5.4 (−5.7)
Belgium	1.2/2.3	1.4/2.1	1.7 (1.8)	1.7 (1.8)	2.9 (2.6)	1.9 (1.8)	2.1 (1.8)	2.1 (2.0)
Britain	1.3/1.9	0.9/2.3	1.7 (1.8)	1.7 (1.8)	2.6	2.0 (2.1)	−4.0 (−4.2)	−3.5 (−3.7)
Canada	1.0/1.8	1.7/2.5	1.4 (1.5)	2.1	1.8 (1.7)	2.0	−0.1 (nil)	−0.3 (−0.4)
France	1.2/1.8	1.0/1.8	1.5 (1.6)	1.5 (1.6)	2.7 (2.4)	2.0 (1.8)	−1.7 (−1.6)	−1.8 (−1.6)
Germany	1.3/2.0	1.0/2.2	1.7	1.6 (1.7)	2.6 (2.3)	1.9 (1.8)	6.2	5.7 (5.8)
Italy	0.1/1.6	0.4/1.7	0.6 (0.8)	1.0 (1.1)	2.8 (2.6)	2.0 (1.9)	−2.5	−2.5 (−2.4)
Japan	0.9/1.7	1.2/1.8	1.3	1.5	0.9 (0.7)	0.7 (0.6)	4.7	4.6 (4.7)
Netherlands	2.1/3.2	1.4/2.7	2.5	1.9	2.3 (2.0)	2.3 (2.1)	6.3 (7.2)	6.6 (6.9)
Spain	1.8/3.3	1.0/2.8	2.2 (2.4)	1.8 (2.1)	3.6	2.5 (2.7)	−9.2	−8.5
Sweden	1.9/2.6	1.4/2.6	2.3 (2.4)	2.1 (2.3)	3.0 (2.8)	2.2	7.2 (6.9)	6.9
Switzerland	1.5/2.6	1.0/2.4	2.1	1.7	2.0 (1.8)	1.2	14.9 (15.1)	14.6 (14.9)
United States	0.8/1.5	1.2/2.6	1.1 (1.2)	1.7	3.5 (3.3)	2.2 (2.3)	−4.6 (−4.7)	−3.5 (−4.2)
Euro area	1.4/2.2	1.1/2.0	1.6	1.5 (1.6)	3.0 (2.7)	2.1 (2.0)	−0.1 (0.1)	−0.1 (nil)

Sources: ABN AMRO, BNP Paribas, Citigroup, Decision Economics, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Scotiabank, UBS

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Trade, exchange rates, budget balances and interest rates

May 8th 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ May 7th	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	–827.0 Feb	–738.6 Q4	–4.6	–	–	–2.4	1.91	3.86
Japan	+105.4 Feb	+216.0 Feb	+4.7	105	120	–2.9	0.75	1.64
China	+256.6 Mar	+249.9 2006	+10.5	6.99	7.69	0.5	4.49	4.34
Britain	–178.9 Feb	–115.4 Q4	–4.0	0.51	0.50	–3.2	5.76	4.71
Canada	+45.5 Feb	+12.5 Q4	–0.1	1.00	1.11	0.4	2.72	3.81
Euro area	+27.3 Feb	+25.3 Feb	–0.1	0.65	0.74	–0.8	4.86	4.18
Austria	+1.0 Feb	+12.2 Q4	+3.0	0.65	0.74	–0.4	4.86	4.33
Belgium	+15.4 Jan	+2.7 Dec	+2.1	0.65	0.74	–0.4	4.92	4.46
France	–59.3 Mar	–32.7 Feb	–1.7	0.65	0.74	–2.9	4.86	4.36
Germany	+273.9 Mar	+264.5 Mar	+6.2	0.65	0.74	1.0	4.86	4.17
Greece	–59.4 Feb	–43.8 Feb	–12.0	0.65	0.74	–2.6	4.86	4.62
Italy	–12.1 Feb	–53.4 Feb	–2.5	0.65	0.74	–2.6	4.86	4.65
Netherlands	+58.2 Feb	+50.7 Q4	+6.3	0.65	0.74	0.6	4.86	4.37
Spain	–142.5 Feb	–153.3 Feb	–9.2	0.65	0.74	nil	4.86	4.42
Czech Republic	+4.4 Mar	–3.9 Feb	–3.0	16.3	20.8	–2.6	4.13	4.67
Denmark	+4.1 Feb	+4.4 Feb	+0.9	4.85	5.50	3.6	5.25	4.39
Hungary	+0.1 Feb	–6.9 Q4	–5.9	164	182	–4.1	8.43	8.25
Norway	+66.1 Mar	+64.1 Q4	+17.2	5.12	6.01	17.5	6.41	4.55
Poland	–13.5 Feb	–17.2 Feb	–4.0	2.22	2.77	–2.0	6.34	6.00
Russia	+146.3 Feb	+92.4 Q1	+5.4	23.8	25.8	2.5	10.50	6.60
Sweden	+19.3 Mar	+38.1 Q4	+7.2	6.04	6.80	2.4	4.03	4.05
Switzerland	+12.5 Mar	+71.1 Q4	+14.9	1.06	1.22	0.9	2.81	3.07
Turkey	–66.8 Mar	–39.0 Feb	–6.1	1.25	1.34	–2.0	17.63	6.57‡
Australia	–21.9 Mar	–56.4 Q4	–5.9	1.06	1.21	1.5	7.80	6.36
Hong Kong	–25.0 Mar	+27.4 Q4	+9.5	7.80	7.82	3.0	2.08	2.73
India	–77.7 Mar	–12.8 Q4	–2.4	41.4	40.9	–3.1	7.42	8.28
Indonesia	+39.8 Mar	+11.0 Q4	+2.1	9,225	8,815	–1.9	8.17	7.04‡
Malaysia	+31.5 Mar	+28.9 Q4	+12.5	3.17	3.40	–3.1	3.62	4.01‡
Pakistan	–17.8 Mar	–8.4 Q4	–8.2	67.1	60.6	–5.2	10.26	9.79‡
Singapore	+32.0 Mar	+39.1 Q4	+24.3	1.37	1.51	1.0	1.44	2.50
South Korea	+6.0 Apr	+2.5 Mar	+0.3	1,026	925	0.2	5.33	5.15
Taiwan	+13.1 Apr	+31.7 Q4	+5.3	30.5	33.3	–1.8	2.70	2.49
Thailand	+8.8 Mar	+13.3 Mar	+2.1	31.8	34.6	–3.0	3.28	4.36
Argentina	+12.0 Mar	+7.3 Q4	+2.8	3.18	3.08	1.1	10.69	na
Brazil	+31.7 Apr	–9.5 Mar	–0.8	1.67	2.02	–1.8	11.61	6.16‡
Chile	+22.2 Apr	+7.2 Q4	+2.6	468	519	7.0	6.48	4.41‡
Colombia	–0.2 Feb	–5.9 Q4	–3.5	1,788	2,046	–1.7	9.75	5.58‡
Mexico	–12.2 Mar	–7.4 Q4	–1.2	10.5	10.8	nil	7.44	7.90
Venezuela	+23.7 Q4	+20.0 Q4	+7.0	3.38	4.23§	nil	14.00	6.55‡
Egypt	–20.5 Q4	+0.5 Q4	+0.3	5.36	5.69	–7.2	5.94	4.80‡
Israel	–11.9 Mar	+5.0 Q4	+1.5	3.46	3.96	–1.4	3.17	5.37
Saudi Arabia	+146.4 2007	+98.9 2006	+27.7	3.75	3.75	17.9	2.30	na
South Africa	–10.6 Mar	–20.6 Q4	–7.8	7.52	6.89	0.4	11.95	9.41
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	–4.4 Feb	–3.5 Feb	–13.1	10.2	11.5	0.6	6.32	na
Finland	+12.6 Feb	+12.4 Feb	+4.1	0.65	0.74	4.6	4.70	4.33
Iceland	–1.6 Apr	–3.2 Q4	–12.0	76.8	64.0	1.4	15.69	na
Ireland	+37.0 Feb	–12.7 Q4	–4.3	0.65	0.74	–0.8	4.86	4.47
Latvia	–7.3 Feb	–6.3 Feb	–14.5	0.45	0.51	nil	5.27	na
Lithuania	–7.3 Feb	–5.4 Feb	–12.0	2.24	2.55	–0.6	5.07	na
Luxembourg	–6.1 Feb	+3.9 Q4	na	0.65	0.74	1.2	4.86	na
New Zealand	–3.4 Mar	–10.2 Q4	–7.6	1.28	1.36	3.1	7.30	6.43
Peru	+8.3 Feb	+1.5 Q4	+0.7	2.78	3.16	1.8	5.51	na
Philippines	–6.5 Feb	+6.4 Dec	+4.0	42.4	47.3	–0.1	5.81	na
Portugal	–27.4 Jan	–23.4 Feb	–8.3	0.65	0.74	–2.5	4.86	4.56
Slovakia	–0.5 Feb	–4.5 Jan	–3.3	20.8	24.8	–2.1	3.92	4.53
Slovenia	–3.2 Feb	–2.6 Feb	–2.5	0.65	0.74	–0.2	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

May 8th 2008
From The Economist print edition

Markets

	Index May 7th	% change on one week	% change on Dec 31st 2007 in local currency	% change on Dec 31st 2007 in $ terms
United States (DJIA)	12,814.4	nil	−3.4	−3.4
United States (S&P 500)	1,392.6	+0.5	−5.2	−5.2
United States (NAScomp)	2,438.5	+1.1	−8.1	−8.1
Japan (Nikkei 225)	14,102.5	+1.8	−7.9	−2.3
Japan (Topix)	1,393.3	+2.5	−5.6	+0.1
China (SSEA)	3,755.7	−3.1	−32.0	−28.9
China (SSEB, $ terms)	253.1	−3.2	−33.8	−30.8
Britain (FTSE 100)	6,261.0	+2.9	−3.0	−4.9
Canada (S&P TSX)	14,371.5	+3.1	+3.9	+2.2
Euro area (FTSE Euro 100)	1,221.0	+1.3	−11.2	−6.5
Euro area (DJ STOXX 50)	3,871.8	+1.2	−12.0	−7.3
Austria (ATX)	4,370.5	+2.5	−3.2	+2.0
Belgium (Bel 20)	3,906.6	−0.5	−5.4	−0.3
France (CAC 40)	5,075.3	+1.6	−9.6	−4.8
Germany (DAX)*	7,076.3	+1.8	−12.3	−7.6
Greece (Athex Comp)	4,261.3	+1.1	−17.7	−13.3
Italy (S&P/MIB)	34,547.0	+1.7	−10.4	−5.6
Netherlands (AEX)	485.3	+2.0	−5.9	−0.9
Spain (Madrid SE)	1,507.9	+1.5	−8.2	−3.3
Czech Republic (PX)	1,663.7	+3.3	−8.3	+2.2
Denmark (OMXCB)	411.7	+1.1	−8.3	−3.5
Hungary (BUX)	23,187.9	+2.6	−11.6	−6.6
Norway (OSEAX)	562.3	+5.0	−1.3	+4.7
Poland (WIG)	48,264.3	+3.4	−13.3	−3.8
Russia (RTS, $ terms)	2,201.5	+3.7	−6.7	−3.9
Sweden (Aff.Gen)	318.9	+3.4	−6.3	+0.2
Switzerland (SMI)	7,639.2	+1.5	−10.0	−3.5
Turkey (ISE)	43,272.5	−0.5	−22.1	−26.8
Australia (All Ord.)	5,757.8	+1.8	−10.3	−3.5
Hong Kong (Hang Seng)	25,610.2	−0.6	−7.9	−7.9
India (BSE)	17,339.3	+0.3	−14.5	−18.5
Indonesia (JSX)	2,382.7	+3.4	−13.2	−11.6
Malaysia (KLSE)	1,287.2	+0.6	−10.9	−7.1
Pakistan (KSE)	14,455.3	−4.4	+2.7	−5.6
Singapore (STI)	3,229.0	+2.6	−6.8	−1.9
South Korea (KOSPI)	1,854.0	+1.6	−2.3	−10.9
Taiwan (TWI)	8,926.3	+0.1	+4.9	+11.5
Thailand (SET)	848.7	+2.0	−1.1	+4.9
Argentina (MERV)	2,094.0	−0.1	−2.7	−3.6
Brazil (BVSP)	69,017.0	+1.7	+8.0	+15.1
Chile (IGPA)	13,766.2	−1.5	−2.2	+4.0
Colombia (IGBC)	10,107.5	+1.7	−5.5	+6.6
Mexico (IPC)	30,762.2	+1.6	+4.1	+7.8
Venezuela (IBC)	38,081.0	+1.1	+0.5	−36.2
Egypt (Case 30)	11,697.4	−0.8	+11.7	+14.9
Israel (TA-100)	1,008.7	+1.7	−12.6	−2.7
Saudi Arabia (Tadawul)	9,771.9	−2.9	+23.2	+23.2
South Africa (JSE AS)	31,894.7	+3.7	+10.1	nil
Europe (FTSEurofirst 300)	1,362.1	+1.8	−9.6	−4.8
World, dev'd (MSCI)	1,523.3	+0.9	−4.1	−4.1
Emerging markets (MSCI)	1,206.0	+1.2	−3.2	−3.2
World, all (MSCI)	387.0	+1.0	−4.0	−4.0
World bonds (Citigroup)	767.4	−1.0	+5.1	+5.1
EMBI+ (JPMorgan)	442.0	+0.2	+1.9	+1.9
Hedge funds (HFRX)	1,317.1	+0.7	−0.9	−0.9
Volatility, US (VIX)	22.5	21.6	22.5	(levels)
CDSs, Eur (iTRAXX)†	67.8	−2.8	+34.0	+41.2
CDSs, N Am (CDX)†	106.4	+8.5	+21.5	+21.5
Carbon trading (EU ETS) €	25.1	+4.8	+12.7	+18.7

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

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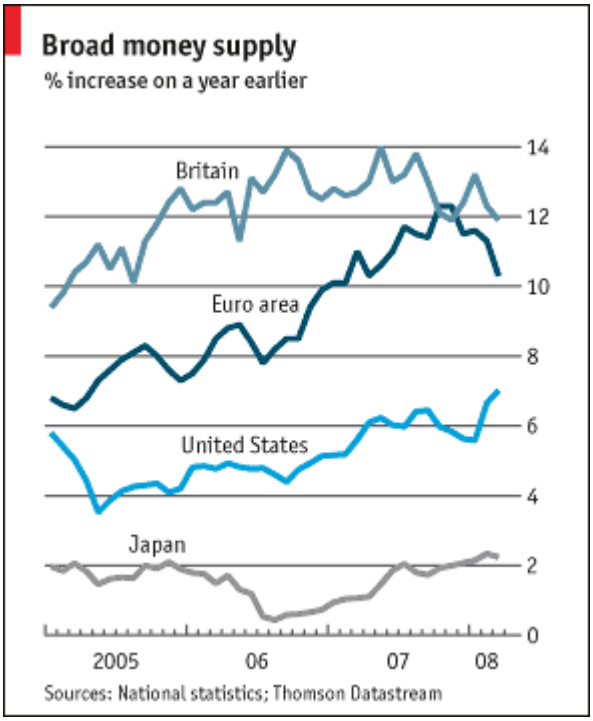
Broad money supply

May 8th 2008
From The Economist print edition



Many central banks keep one eye on broad measures of the money supply for signs that the economy is overheating or cooling. If money flowed around the economy at a stable rate, an annual increase much above 5% in a rich country would provide an early warning of inflation—too much cash would be chasing too few goods. A rate below that benchmark may signal faltering growth or falling prices. In fact money-supply growth is an unreliable indicator, because its rate of circulation varies. In times of economic stress, as now, firms and households prefer to keep more of their wealth in cash or in liquid bank deposits. This helps explain why broad money has either picked up or stayed strong despite weaker economic growth.

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